Re-powering our province

Manitoba Hydro-Electric Board
63rd Annual Report - For the Year Ended March 31, 2014

Manitoba Hydro

TABLE OF CONTENTS

Cover: Rebuilding the 95-year-old Stafford Street Station in Winnipeg.

July 31, 2014

Honourable Stan Struthers
Minister charged with the administration of the Manitoba Hydro Act
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I have the honour of presenting the 63rd Annual Report of the Manitoba Hydro-Electric Board, together with the financial statements, for the fiscal year ended March 31, 2014.

Respectfully submitted,

William C. Fraser, FCA
Chair, Manitoba Hydro-Electric Board

Corporate profile

Manitoba Hydro is a provincial Crown Corporation and one of the largest integrated electricity and natural gas distribution utilities in Canada. We provide reliable, affordable energy to customers throughout Manitoba and trade electricity within three wholesale markets in the Midwestern United States and Canada. Nearly all of the electricity Manitoba Hydro produces each year is clean, renewable hydro power generated using the province's abundant water resources. We are also a leader in promoting conservation, providing a suite of Power Smart* programs to help our customers get the most out of their energy dollar.

Vision

To be recognized as a leading utility in North America with respect to safety, reliability, rates, customer satisfaction and environmental leadership.

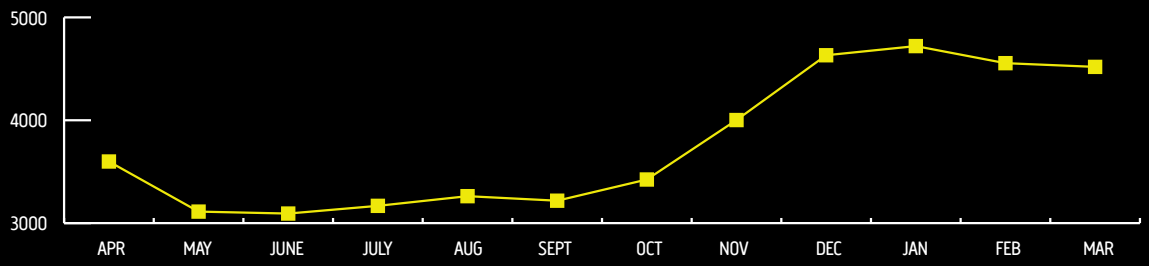
Mission

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy.

5 725 megawatts
Total electricity capability

536 081
billion joules
Peak natural gas load

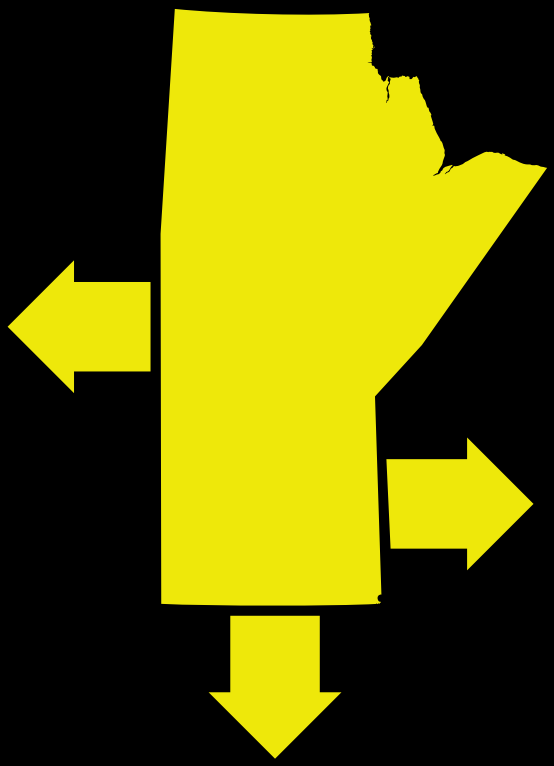
4 720
megawatts
Peak Manitoba electricity load



*Manitoba Hydro is a licensee of the Trademark and Official Mark.

$439 million

Revenue from export sales of electricity



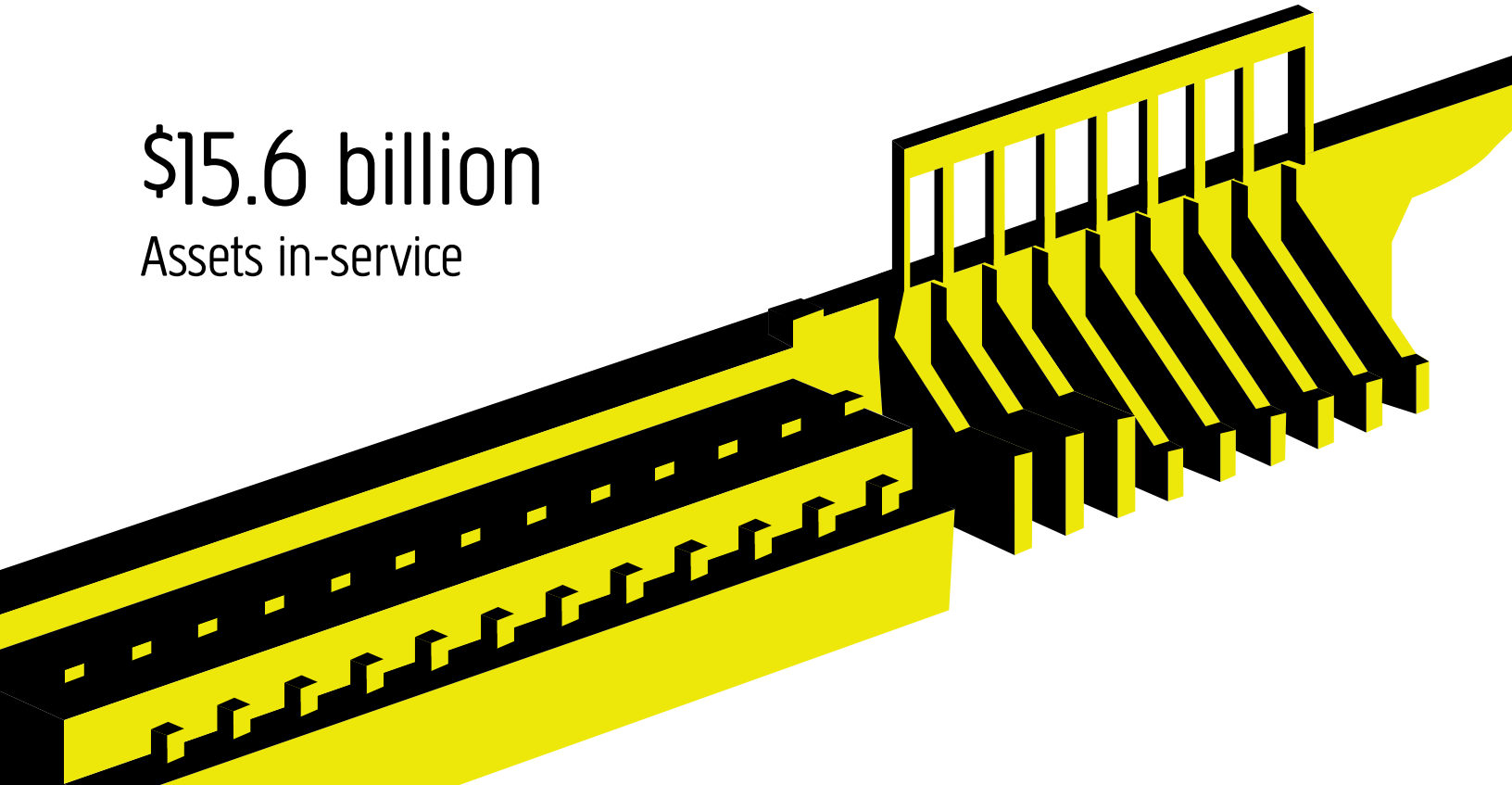
6 556 Full-time employees

$1.9 billion

Revenue from Manitoba sales of electricity and natural gas

$15.6 billion

Assets in-service



Chair's message

Manitoba Hydro is working to preserve a legacy of affordable energy and derive value from the province's abundant renewable energy resources for all Manitobans.

This past year saw the successful completion of negotiations with Wisconsin Public Service resulting in two new power sales; one for 108 megawatts from 2016 to 2021 and another for 308 megawatts for up to 10 years starting in 2027. These agreements bring the total value of Manitoba Hydro's recently signed export contracts to over $9 billion. Electricity rates in Manitoba would be considerably higher without export sales, so continuing to pursue further opportunities must be a priority. To that end, Manitoba Hydro signed memorandums of understanding to investigate future sales of up to 600 megawatts with Great River Energy of Minnesota and 500 megawatts with SaskPower.

The corporation also continued moving forward with plans to develop new sources of clean, renewable hydroelectricity in the north. The

Electricity rates in Manitoba would be considerably higher without export sales, so continuing to pursue further opportunities must be a priority.

Keeyask Generating Station will be built, pending necessary approvals, in partnership with four First Nations – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation. Through this approach, first undertaken with the Wuskwatim Generating Station, First Nations people who live in the

directly affected area are involved in the planning of the project, take part in the development and have access to its benefits. A recent independent assessment of Keeyask under the Hydropower Sustainability Assessment Protocol concluded the project was a prime example of sustainability, in part, because of the extensive participation by the First Nation partners.

The five First Nations in the vicinity of the proposed Conawapa Generating Station also have an opportunity to participate in that project. Fox Lake Cree Nation, York Factory First Nation, Tataskweyak Cree Nation, Shamattawa First Nation, War Lake First Nation and Manitoba Hydro are already collaborating on planning and environmental studies. In addition, agreements related to potential training, employment, business and income opportunities are being negotiated.

The board was also pleased to see the start of construction on the Bipole III transmission project that will benefit all of Manitoba by strengthening the reliability of the province's electricity supply and providing additional

capacity needed to deliver electricity from new northern generating stations to southern Manitoba. The Manitoba Environment Act license for Bipole III was issued in August.

I and my fellow board members are tasked with ensuring Manitoba Hydro carries out its legislated mandate to meet the energy needs of the province in an economic and efficient manner. To accomplish this, board members participate in audit, human resources and governance, and planning committees. We advise management as it decides on strategic objectives and approve major capital projects.

I would like to express my appreciation to all board members for their attentive efforts over the past year.

Manitoba Hydro's performance, both financially and operationally, is worthy of praise. It attests to diligent management and effective employees. I thank all employees for their contributions to Manitoba Hydro's success.

William C. Fraser, FCA
Chair
Manitoba Hydro-Electric Board

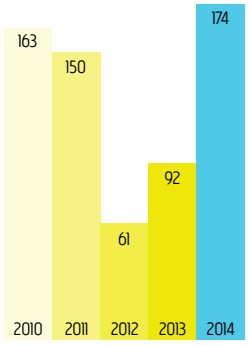
President & CEO's message

The past fiscal year saw many achievements by Manitoba Hydro. The corporation booked a higher than forecast consolidated net income of $174 million that increased retained earnings to $2.72 billion, the highest level of equity in our history. This $82 million improvement over the previous year's net income was the result of higher volumes in export electricity sales, higher export prices and increased consumption arising from a much colder winter.

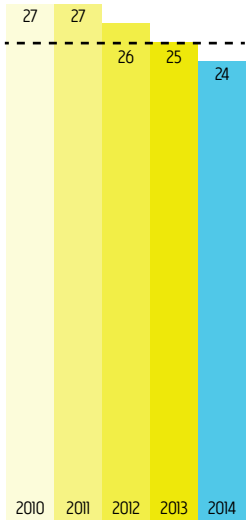
The coldest winter in 116 years pushed parts of our system to the edge with many of our electric transmission and distribution stations operating at or near the limits of their capacity. Yet there was little impact on our service, thanks to the effective planning and balancing of loads by our staff.

Manitoba Hydro also took major steps forward in our plan for meeting the growing energy needs of this province. We prepared and submitted the business case for our preferred development plan to the Manitoba Public Utilities Board, who subsequently conducted a public Needs For and Alternatives To review. We also participated with our four First Nation partners in the Clean Environment Commission's review of the environmental impact statement for the planned Keeyask Generating Station.

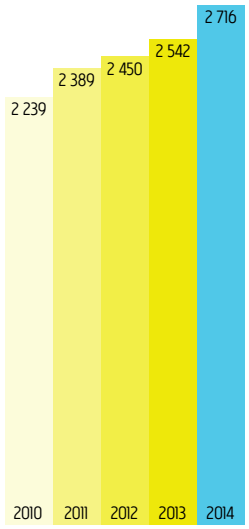
However, what stands out for me personally are the extraordinary efforts of our employees — the men and women who worked long hours, giving up weekends and family time, to prepare for and participate in various regulatory hearings; those who worked tirelessly in January to support our customers in south central Manitoba during a four-day loss of supply from TransCanada Corporation's main pipeline; or the 42 individuals who selflessly gave up their Christmas holiday to



Net Income (millions of dollars)



Equity Ratio - For the year ended March 31
Target - - -



Retained Earnings - For the year ended March 31
millions of dollars

help the people of Toronto regain power after a devastating ice storm.

These examples demonstrate the character of our employees and the commitment to service that permeates this organization. This proves to me that we have the team to successfully re-power our province.

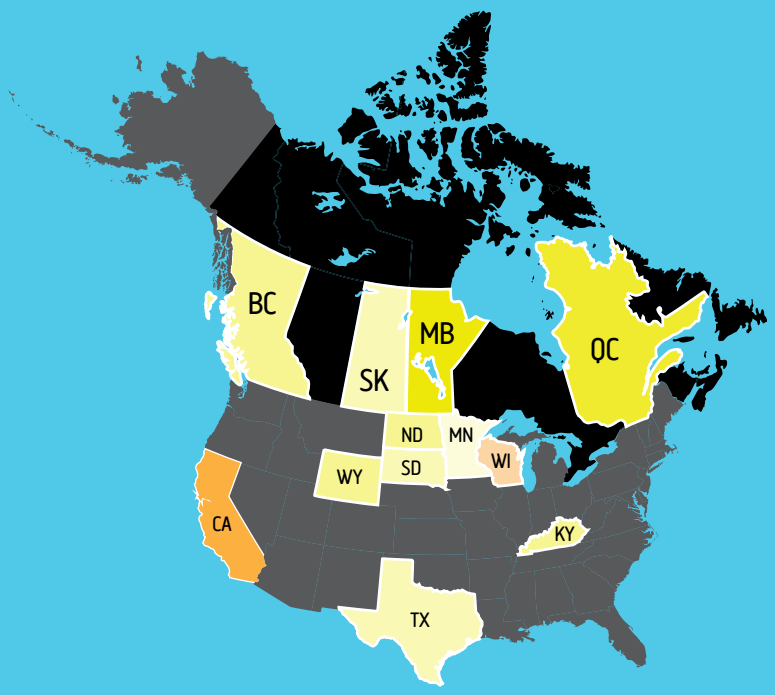
Demand is growing by about 80 megawatts a year and Manitoba needs new sources of electricity by about 2023. We have evaluated different scenarios involving population growth, economic growth and demand side management but these variables only affect the timing for new generation by a few years. Given the long lead times required to develop new generating stations, we are at a point where a decision must be made on how Manitoba Hydro will fulfill its obligation to meet the province's future electricity needs.

Our preferred development plan includes two projects that will proceed immediately, pending necessary regulatory approvals: the 695-megawatt Keeyask Generating Station to be in-service in 2019 and a new 500 000-volt transmission interconnection to Minnesota with an in-service date of 2020. It also includes the 1 485-megawatt Conawapa Generating Station with a projected in-service of 2026; however, a decision to proceed with this project is not required until 2018 and Conawapa will only be built if the business case remains sound.

At the same time, many of Manitoba Hydro's generation, transmission and distribution assets are approaching the end of their service life and becoming more costly to maintain. The risk of equipment failure is growing and outages may become more frequent and last longer if adequate investment is not made to upgrade and renew these facilities. In Winnipeg, for example, 20 distribution substations need

Retail Price of Electricity - cents/kWh (Cdn)

6.4	Manitoba
6.4	Quebec
8.0	British Columbia
8.5	Wyoming
8.6	Kentucky
8.9	North Dakota
9.1	Saskatchewan
9.5	South Dakota
9.7	Texas
10.3	Minnesota
11.3	Wisconsin
15.0	California



Deregulated jurisdictions such as Alberta and Ontario are not included in this comparison as there are numerous utilities providing service in each province, making it difficult to derive an overall bundled average retail rate that includes generation, transmission and distribution service.

President & CEO's message

to be replaced or refurbished by 2020. Other assets in need of renewal across the province include wooden distribution poles, underground electric cables and manholes.

The reality is electricity rates in Manitoba must rise to ensure the ongoing safety and reliability of our electricity supply and delivery system. It's a story repeating itself across North America as other utilities address aging infrastructure and growing demand. The British Columbia government announced that electricity rates will increase by nine percent in 2014 and six percent in 2015. SaskPower proposed rate increases of 5.5 percent in 2014 and five percent in each of 2015 and 2016. The Ontario government's 2013 Long Term Energy Plan indicates residential customers in that province could see their bills increase by 9.6 percent in 2014, 5.8 percent in 2015 and 15 percent in 2016.

The challenge facing Manitoba Hydro is balancing the needed investment in our system with maintaining the financial health of the corporation and providing stable, predictable rates for our customers.

Manitoba's electricity rates continue to be among the lowest overall in North America. That is due, in large part, to the corporation's past investments in developing hydroelectric generating stations and to the revenue that's been earned by selling surplus electricity from those stations into the export market. Those revenues totaled $439 million in 2013-14, 23 percent of our total electricity revenue for the fiscal year.

Manitoba Hydro's plan for re-powering our province builds on this legacy and will allow us to make needed investments and maintain financial strength through reasonable, gradual electricity rate increases that will provide adequate revenues and avoid the need for higher rate increases in the future.

The generation resources in our preferred development plan are supported by a number of export agreements, including a 250-megawatt sale to Minnesota Power plus a 108-megawatt sale and a 308-megawatt sale to Wisconsin Public Service. These long-term agreements, along with forecast domestic demand growth, have essentially sold out the surplus associated with the Keeyask Generating Station. They also reflect prices substantially more attractive than those in our existing firm export contracts and will help reduce the costs of building new generation supply for Manitoba ratepayers.

In addition, our plan includes a substantially increased investment in demand side management. New and expanded Power Smart programs will aggressively target additional electricity and natural gas savings, helping our customers reduce their energy costs. Manitoba Hydro customers have saved over $860 million since the Power Smart program was launched in 1991.

The challenge facing Manitoba Hydro is balancing the needed investment in our system with maintaining the financial health of the corporation and providing stable, predictable rates for our customers.

Balancing the financial health of Manitoba Hydro with reasonable rates will also require a concerted effort to control costs within the corporation. One measure already implemented is the evaluation of positions vacated by retirements to determine whether they need to be filled or if we can change the way we work. It's an opportunity created by the demographics of our workforce — over 900 employees are eligible to retire in 2014. However, we need to ensure staffing levels are adequate to provide safe and reliable service. We also need to manage the loss of valuable experience and knowledge that can result from the retirement of key contributors.

This last point was brought home this past year with the retirement of two members of our executive team. Ken Adams and Ed Tymofichuk both brought vast experience to their roles

and contributed greatly to Manitoba Hydro's success over their long careers. Ken, who retired as Vice-President of Major Capital Projects, was instrumental in setting the course for recent and planned supply-side additions, including the precedent setting partnership with Nisichawayasihk Cree Nation to build the Wuskwatim Generating Station. Ed, who retired as Vice-President of Transmission, helped to lead the corporation through a number of key projects including a new system control centre and regulatory approval for the Bipole III transmission project. I would like to thank both of them for their outstanding service and support over the years.

I also want to thank the members of the Manitoba Hydro-Electric Board and particularly the Chair, Bill Fraser, for the support and counsel provided over the past year.

Finally, I want to express my gratitude for the contribution of our employees. Their dedication and commitment demonstrated over the past year is what will allow us to meet the challenge of continuing to provide the value and reliability our customers have come to expect from their energy utility.

Scott A. Thomson, CA
President and Chief Executive Officer
Manitoba Hydro

Year in review

FINANCIAL RESULTS

	Electricity		Natural Gas		Consolidated		Change
	2014	2013	2014	2013	2014	2013	
Revenue							
			millions of dollars				
Manitoba	1 475	1 410	415	329	1 890	1 739	151
Extraprovincial	439	353	-	-	439	353	86
	1 914	1 763	415	329	2 329	2 092	237
Cost of gas sold	-	-	252	182	252	182	70
Expenses	1 782	1 692	143	139	1 925	1 831	94
Net income before non-controlling interest	132	71	20	8	152	79	73
Net loss attributable to non-controlling interest	22	13	-	-	22	13	9
Net income	154	84	20	8	174	92	82
Retained earnings	2 654	2 500	62	42	2 716	2 542	174

OPERATING STATISTICS

	2014	2013	Increase/(Decrease)
Electrical Operations			
Sales		*billions of kilowatt hours*	
Manitoba sales	22.4	21.5	0.9
Extraprovincial sales	10.5	9.1	1.4
System supply		*billions of kilowatt hours*	
Generation	35.4	33.2	2.2
Purchases	1.5	1.4	0.1
		thousands of kilowatts	
Manitoba peak load	4 720	4 535	185

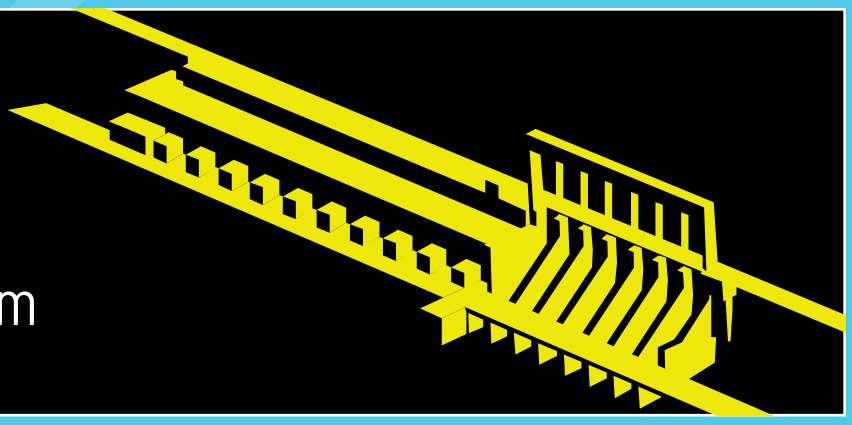
	2014	2013	Increase/(Decrease)
Natural Gas Operations			
		millions of cubic metres	
Residential sales	664	602	62
Commercial and industrial sales	964	849	115
	1 628	1 451	177
Transportation service	652	598	54
	2 280	2 049	231
		billions of joules	
Manitoba peak load	536 081	504 961	31 120

Harnessing resources

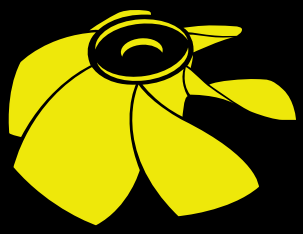
Manitoba Hydro operates 15 hydroelectric generating stations that harness the energy of the province's rivers to meet the electricity needs of our customers. We also maintain two small thermal generating stations and purchase power from two independent wind farms to support this hydroelectric system.

$714 million

Invested to build and maintain generation system



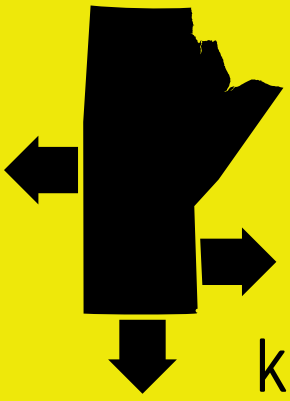
Total hydraulic generation: 35.3 billion kilowatt hours



Total Manitoba sales:

22.4 billion kilowatt hours

Total export sales:



10.5 billion kilowatt hours

Surveying the Pointe du Bois Spillway Replacement Project on the Winnipeg River.

Harnessing resources

Reviewing preferred development plan

Public hearings on Manitoba Hydro's plan for meeting the future electricity needs of the province began in March 2014. The hearings are part of a Needs For and Alternatives To review by the Manitoba Public Utilities Board (PUB) aided by a number of independent expert consultants from across North America.

The corporation's preferred development plan includes the 695-megawatt Keeyask Generating Station, a new 500 000-volt transmission interconnection with Minnesota, additional export sales and aggressive demand side management. The plan also protects the option to build the 1 485-megawatt Conawapa Generating Station subsequent to Keeyask. The 5 000-page business case for the preferred plan submitted to the PUB in August 2013 describes the extensive process used to arrive at a short list of viable options and presents an in-depth analysis of 15 alternative development plans over 27 scenarios involving 400 cases. It concludes that the preferred development plan meets Manitoba's electricity needs at the lowest cost to ratepayers over the long-term and provides the greatest benefits to the province.

Subsequent to the August filing, a substantial amount of information and analysis was provided to the PUB on three additional levels of demand side management, including a further 19 alternate development plans. Nearly 50 days of hearings were scheduled involving five registered interveners, 31 consultants and more than 20 presentations by the public. The hearings are expected to end in May with a report submitted to the minister responsible for the Public Utilities Board Act by no later than June 20.

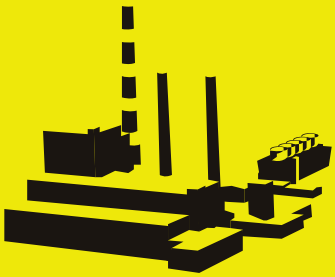
Concluding Keeyask environmental review

The Manitoba Clean Environment Commission conducted a public hearing on the planned Keeyask Generating Station as part of an environmental licensing review. Thirty-eight days of public hearings on the project's environmental impact statement concluded in January and the commission was expected to submit a recommendation report within 90 days to the Minister of Manitoba Conservation and Water Stewardship.

The $6.5-billion Keeyask Generating Station is being developed, pending regulatory approvals, by the Keeyask Hydro Power Limited Partnership consisting of the four Keeyask Cree Nations — Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation, York Factory First Nation — and Manitoba Hydro. The site for the station is on the Nelson River approximately 30 kilometres west of Gillam within the Split Lake Resource Management Area. Once completed, the Keeyask Generating Station will provide an average of 4.4 billion kilowatt hours of renewable energy each year.

Sources:

hydroelectric 95.4%



thermal 0.4%

In March, the general civil contract for Keeyask was awarded to a limited partnership between Bechtel Canada, Barnard Construction of Canada and EllisDon Civil. Pending regulatory approvals, construction is scheduled to start in the summer of 2014 with an in-service of 2019.

The majority of the infrastructure required to support construction of Keeyask, including an all-weather access road and the first phase of the main construction camp, was near completion at the end of the fiscal year. An early start to construction of this infrastructure was undertaken to minimize risk of delays and to optimize employment, training and business opportunities for the Keeyask Cree Nations. Multiple training opportunities at site included specialized, on-the-job training programs for road construction, work-site area development, catering/housekeeping, security, emergency medical services and camp maintenance. A range of apprentices also acquired work experience on main camp construction.

Planning for Conawapa

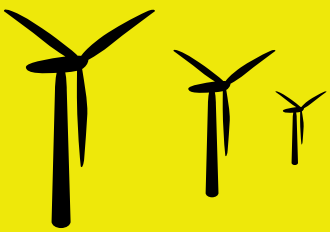
Preparatory engineering, environmental and consultation work for Conawapa, the other generating station in Manitoba Hydro's preferred development plan, continued throughout the fiscal year to protect a construction start date of 2018 and an earliest in-service date of 2026. Environmental and Aboriginal Traditional Knowledge studies are underway with the intent of having the environmental impact statement finalized and available to file with regulators by the end of 2015.

The Conawapa Generating Station would be built on the Nelson River, about 90 kilometres downstream of Gillam, in the Fox Lake Resource Management Area. When complete, Conawapa will produce an average of seven billion kilowatt hours of electricity annually, making it the largest generating station in Manitoba.

A formal planning process is underway with the communities in the vicinity of the proposed generating station, including Fox Lake Cree Nation, York Factory First Nation, Tataskweyak Cree Nation, War Lake First Nation and Shamattawa First Nation. An agreement related to ownership of the station, income and business opportunities was reached with Fox Lake Cree Nation in June 2013. Discussions have been ongoing with Fox Lake regarding project opportunities. A memorandum of understanding between Fox Lake Cree Nation, the Province of Manitoba and Manitoba Hydro recognizes that Fox Lake will have a leading and significant role in the planning process of the Conawapa Generating Station because of its proximity to the community.

Realizing export opportunities

Manitoba Hydro's strategy of growing export revenues to keep our customer's electricity rates lower than they would be otherwise and defray some of the costs for new generating



wind (purchased) 2.5%

Purchases excluding wind 1.7%

Harnessing resources

stations resulted in a number of power sale agreements in 2013-14.

A 200-megawatt seasonal diversity exchange with Great River Energy of Minnesota was signed in July, extending a 150-megawatt arrangement that has been in place since 1995. The new agreement runs until 2030.

In September, Manitoba Hydro and SaskPower executed a 25-megawatt term sheet to supply firm power to Saskatchewan's far north from 2015 to 2022. The two utilities also signed a memorandum of understanding to investigate a potential 500-megawatt sale that would begin after 2020.

In December, Manitoba Hydro and Minnesota Power signed a 50-megawatt firm power sale from 2015 to 2020, replacing an existing 50-megawatt arrangement that expires in 2015.

In February, two major power sales to Wisconsin Public Service were announced. The first sale running from 2016 to 2021 is for 108 megawatts of firm power. The second sale, which would use electricity produced by the proposed Conawapa Generating Station, is for 308 megawatts of firm power for up to 10 years starting in 2027. The 308-megawatt sale also requires a new 500 000-volt transmission interconnection to Minnesota. A 100-megawatt sale to Wisconsin Public Service announced in 2011 is scheduled to run from 2021 to 2026, bridging the gap between the two new deals.

Also in February, a memorandum of understanding was signed to jointly investigate the sale of up to 600 megawatts of electricity from Manitoba Hydro to Great River Energy commencing in approximately 2020.

Upgrading spillway at Pointe du Bois

Nearly all of the existing spillway bays or sluiceways at the Pointe du Bois Generating Station have to be manually operated, a difficult task in icy conditions. The $560-million Spillway Replacement Project will replace these century-old structures with a seven-bay spillway and earth-fill dam, providing a safer work environment for Manitoba Hydro employees. The new spillway structure will also increase the station's flood capability to meet the Canadian Dam Association's dam safety guidelines.

Installation of gates as well as the mechanical and electrical systems for the new spillway structure was ongoing at the end of the fiscal year.

Rehabilitating existing generators

Generators at a number of Manitoba Hydro's older stations were rehabilitated during the fiscal year.

A seven-year project to recondition all of the Kelsey Generating Station's units was completed in July when the last unit was returned to service. The Kelsey Re-runnering

Import capability: 700 megawatts

Export capability: 2 450 megawatts

Project increased the station's total output by approximately 77 megawatts at a cost of $300 million. The work included rewinding of the stators and rotors, modifications to the draft tubes and installation of new turbine runners.

At the Pointe du Bois Generating Station, a unit was returned to service after rehabilitation of the runner-shaft coupling assembly, repairs to the runner and refurbishment and replacement of other turbine components. Work is continuing on three other units which are expected to be returned to service by the summer of 2015.

At the Great Falls Generating Station, a unit was returned to service following replacement of a failed generator stator. The project included installing a new stator, refurbishment of the rotor and various other improvements.

Work is also underway at the Pine Falls Generating Station to rewind a failed stator and refurbish the rotor field poles on a unit. The work is expected to be completed in July 2014.

Representatives of Manitoba Hydro and the Keeyask Cree Nation Partners at public hearings to review the corporation's preferred development plan.

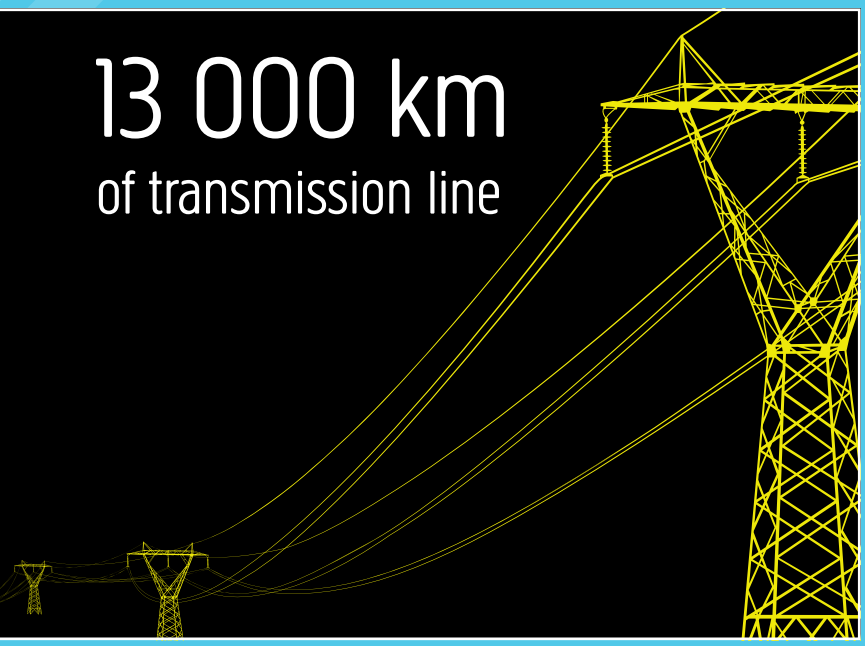
Enhancing reliability

Manitoba Hydro maintains a vast network of electric transmission and distribution lines, as well as natural gas distribution pipelines, to deliver energy across the province. This network includes 12 electric transmission interconnections with neighbouring utilities.

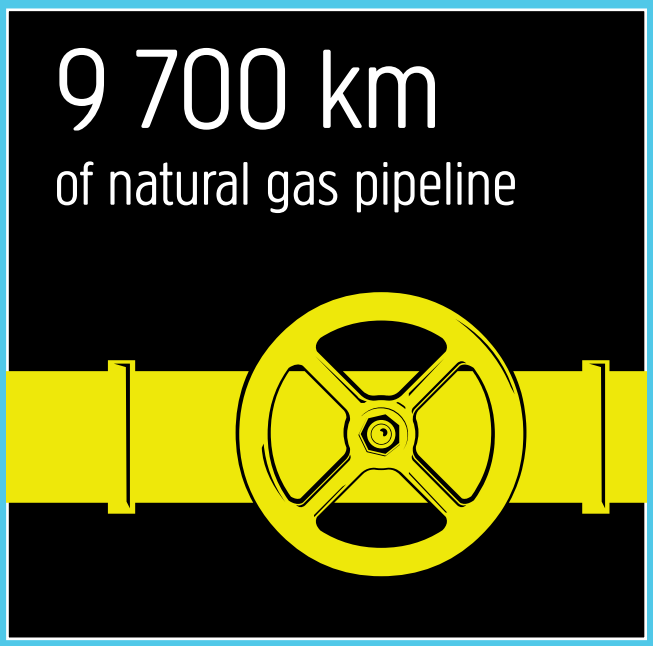
76 000 km
of distribution line

$663 million
Invested to build and maintain delivery system

13 000 km
of transmission line



9 700 km
of natural gas pipeline



Commissioning the new Riel Terminal Station east of Winnipeg.

Enhancing reliability

Building reliability with Bipole III

Construction began this past winter on Bipole III, a new high voltage direct current transmission line required to enhance Manitoba Hydro's system reliability. The Manitoba Environment Act license for Bipole III was issued in August after a rigorous public hearing on the project's environmental impact statement and a subsequent report by the Clean Environment Commission.

The Bipole III project includes: a 1 384-kilometre, 500 000-volt direct current transmission line; the Keewatinoow Converter Station near the site of the proposed Conawapa Generating Station, and the Riel Converter Station on the east side of Winnipeg. These facilities will back-up the Bipole I and II high voltage direct current transmission systems, which share a common right-of-way corridor, and the Dorsey Converter Station. Dorsey is the only outlet in southern Manitoba for hydroelectricity generated on the lower Nelson River — the source of over 70 percent of the electricity produced in the province. Bipole III will also provide additional capacity for delivery of electricity from the proposed Keeyask and Conawapa generating stations to southern Manitoba.

In January, work began on clearing the right-of-way in northern sections between Thompson and The Pas. Work also got underway on a line to provide construction power to the site of the Keewatinoow Converter Station. This work was being done under a direct negotiated contract with a joint venture partnership between Fox Lake Cree Nation and Valard Construction.

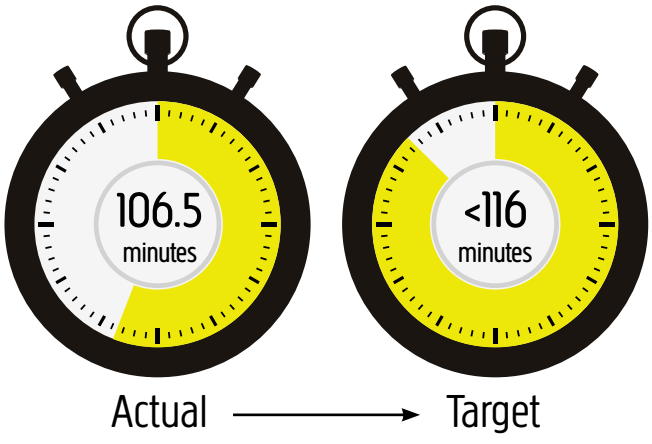
Engaging on transmission routes

In November, Manitoba Hydro began seeking public input to be used in route selection and environmental assessment for the proposed Manitoba-Minnesota Transmission Project. The project, which is part of the corporation's preferred development plan, includes a 500 000-volt alternating current transmission line originating at the Dorsey Converter Station near Winnipeg then heading south to the Manitoba-Minnesota border where it will connect to the Great Northern Transmission Line to be built by Minnesota Power. Along with providing additional opportunities for export sales to the U.S., the new line will provide increased reliability for Manitoba's energy supply, allowing for the import of additional electricity during emergency outages or droughts. Manitoba Hydro expected to file an environmental impact statement for the project in 2015. Subject to regulatory approvals, the project's planned in-service date is mid-2020.

Public input was also sought on two proposed 230 000-volt transmission lines, both originating at the St. Vital Transmission Station in southwest Winnipeg. These new transmission lines will improve system reliability and accommodate growth in electricity demand in south central Manitoba. The St. Vital to Letellier line is expected to be in-service in 2017. The St. Vital to La Verendyre line is expected to be in-service

System average interruption duration

(minutes per year).



in 2018. A preferred route was presented to the public in November. Feedback is being compiled to finalize the route and complete the environmental assessment. A report on the project is expected to be submitted to Manitoba Conservation and Water Stewardship in mid-2014.

Completing new terminal for key interconnection

The Riel Terminal Station was nearing completion at the end of the fiscal year with commissioning of the control system underway. The new alternating current terminal will create a second point where electricity imported from the United States on an existing 500 000-volt transmission line can be introduced into Manitoba Hydro's transmission network. Undertaken to reduce dependence on the existing terminal station at Dorsey, the Riel Terminal Station will improve the reliability of the province's energy supply, protecting against prolonged outages to existing termination facilities or droughts.

Located just east of Winnipeg, the Riel Terminal Station is expected to be in-service in 2014 at a cost of $330 million. Bipole III will also terminate at the Riel site and include the addition of converters and ancillary equipment.

Expanding capacity with new stations

Work progressed on the replacement of aging, capacity-constrained transmission and distribution stations during the fiscal year. Foundation and building construction was underway at the end of March for the new Rockwood East Transmission Station north of Winnipeg. The station will increase capacity and eventually replace the 1940s-era Parkdale Station. Erection of steel structures and installation of electrical equipment was also underway at a new transmission station near Neepawa. Needed to meet forecast load growth in the area, the station is scheduled to be in-service in 2015.

Of the 97 distribution substations in Winnipeg, Manitoba Hydro expects to replace or refurbish 20 by 2020. The new Martin Avenue substation in Winnipeg was under construction adjacent to a substation which was built in the 1950s and is no longer adequate to meet the area's electricity needs. Groundwork began in March 2013 and the new substation is scheduled to enter service in late 2014. The new Burrows substation in Winnipeg's north end was placed in-service during the year. Work continued to convert the distribution lines emanating from the new station to a higher capacity 12 470-volt design from the existing 4 160-volt. When the conversion project is complete, the Burrows substation will replace three substations which were over 60 years old and had reached the limit of their capacity.

Preliminary design work was underway on a new substation to replace the St. James substation located on the corner of Portage Avenue and St. James Street in Winnipeg. The Madison substation will address reliability concerns arising from the aging infrastructure at the existing substation and provide more capacity to serve the growing number of commercial and industrial customers in the area. Construction of the Madison substation is expected to begin in the summer of 2014 with an expected in-service of 2016. Design work also began for an expansion of the York Street substation that will see the addition of three transformer banks and sets of 12 470-volt switchgear. The project, which will accommodate projected load growth in downtown Winnipeg, is expected to be in-service by summer of 2016. Planning began for the new Adelaide substation which will replace the King Street substation in Winnipeg's market district. The King Street substation building is over 100 years old and no longer adequate to meet reliability and safety requirements. The expected in-service for the Adelaide substation is spring 2017.

In rural Manitoba, a number of distribution supply centres were under construction to support increased electricity demand. Distribution supply centres are complete

Enhancing reliability

substations, with all the components pad-mounted and conductors buried underground, which can effectively serve areas with lower load densities. The result is a sleek, compact design with less visual presence than a traditional, wood-pole and steel substation. New distribution supply centres are being built east of Kleefeld, at Selkirk, near Lockport and in McTavish near Morris.

Beginning manhole rebuilds

A concerted effort began under the streets of downtown Winnipeg in the last year to rebuild manholes which are an important part of Manitoba Hydro's electrical distribution system. The corporation has approximately 2 400 manholes throughout the province with over 1 800 in downtown Winnipeg. Some of these enclosures are over 100 years old. An engineering survey identified approximately 350 manholes in need of rehabilitation or replacement within the next 20 years at an estimated cost of $52 million. Priority is being given to manholes located on public roadways because they are subjected to the most severe conditions and present the highest risks to the public.

Injecting new life into aging cables

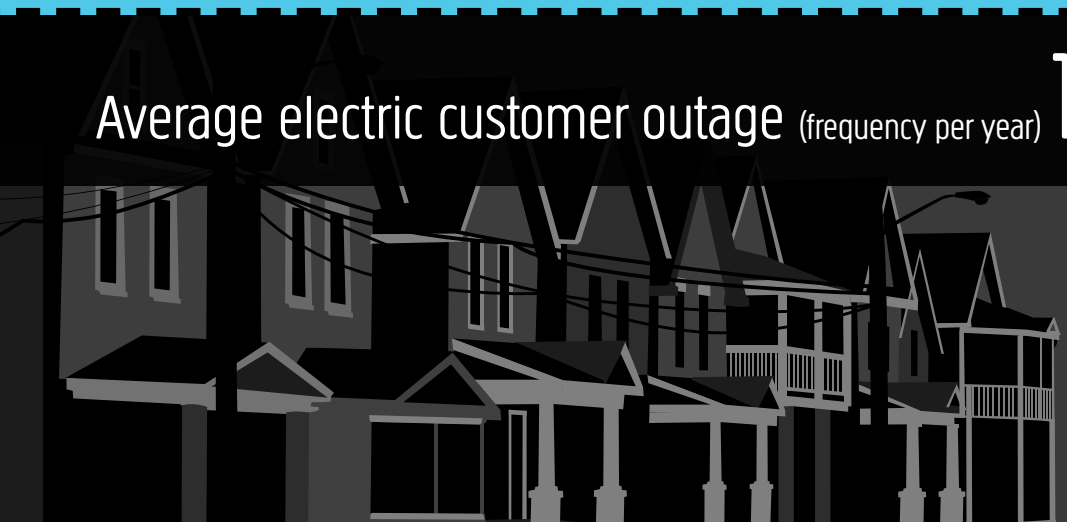
A pilot project explored the logistics and costs associated with using injected silicone to extend the life of aging underground electricity distribution cables. Manitoba Hydro has over 6 000 kilometres of underground electric cable, approximately 3 300 kilometres of which is a cross link polyethylene insulated variety installed between 1970 and 1986 that has started to reach the end of its useful life.

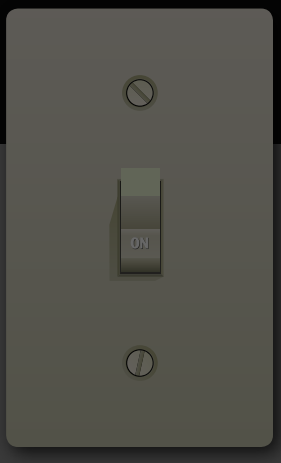
The injection method forces silicone under pressure into the cable's strands of conductors flushing out impurities and encapsulating any moisture within the insulation sheathing. The process can extend the life of the cable by up to 40 years. It is also significantly less expensive and quicker than replacing the cable outright which involves significant labour and disruption to property owners. The pilot study concluded that the average cost of silicon injection was about five times less per metre than the cost of traditional cable replacement. Based on these results, the corporation began a more comprehensive silicone cable injection program to address its aging cable infrastructure.

Upgrading natural gas pipeline

A new pipeline was installed in south central Manitoba providing additional capacity needed to meet increased natural gas usage and community growth. The 14.5-kilometre, 114.3-millimetre diameter steel pipeline runs from a point approximately four kilometres west of Letellier to St. Jean Baptiste. Construction began in August and was completed in October.

Average electric customer outage (frequency per year) 1.3





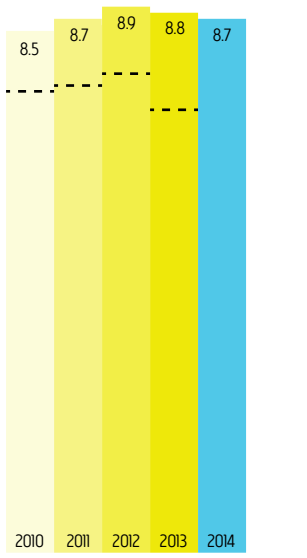
To provide additional capacity needed to maintain natural gas service for the growing community of Headingly and support future growth in the area, a new natural gas pipeline was installed in the Rural Municipality of St. Francois Xavier. The project included 19 kilometres of new 168.3-millimetre steel pipeline connecting a natural gas station on Selkirk Avenue in Winnipeg to a new pressure regulation station in the municipality and an additional four kilometres of 219.1-millimetre polyethylene pipe connecting to an existing distribution pipeline west of Headingly. The pipeline installation and construction of the new station began in June and was completed in November.

Much of the planning and design work for upgrades to the Winnipeg natural gas transmission network was completed. Serving over 213 000 natural gas customers in Winnipeg and areas to the north, the network consists of four pipelines. The Winnipeg Northwest Upgrade Project will provide additional redundancy in supply and balance loads on the primary stations feeding Winnipeg. Phase one of the project, which includes installation of a new pressure regulating station near St. Andrews to support local growth in demand, will be completed in 2014-15.

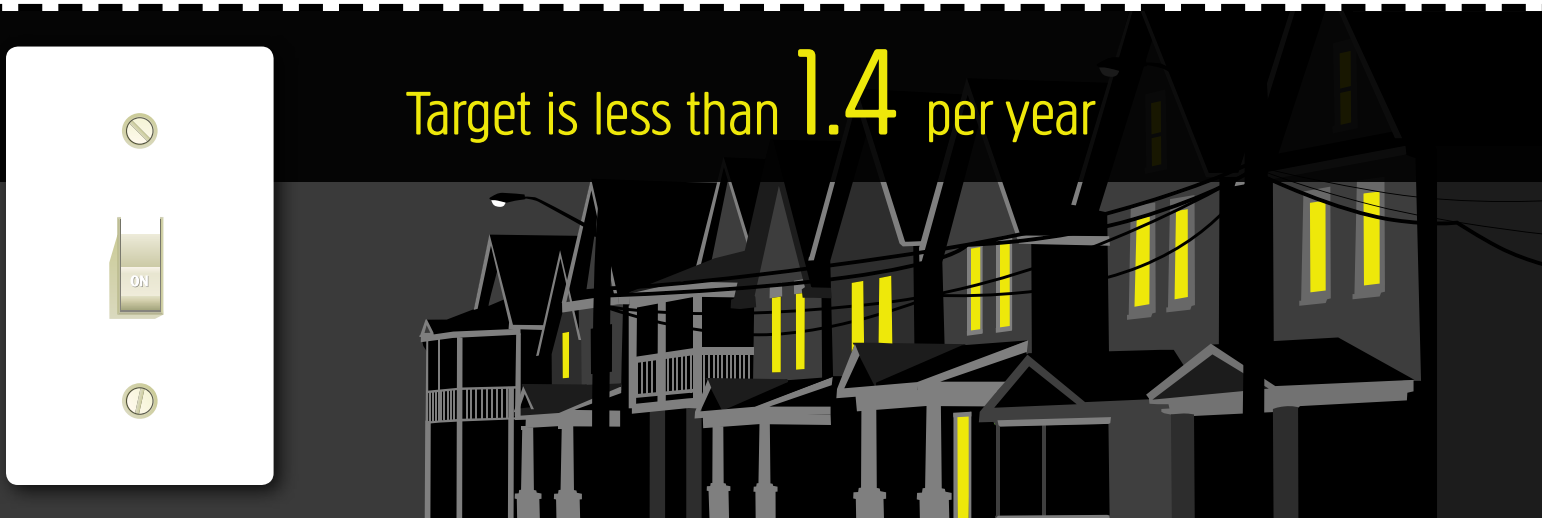
Mitigating ice formation

Rising moisture content in natural gas supplied to Manitoba Hydro is increasing the risk of operational problems and outages. In response, the corporation initiated an analysis of available line heater technologies that can prevent freeze-off and ice formation. The analysis will evaluate supply and installation costs as well as predicted annual energy and maintenance costs. Plans were to complete designs for line heaters at two sites based on selected technologies and begin installation in 2015.

Customer Satisfaction with System Reliability (electricity)
(Source: MH quarterly customer satisfaction tracking study)



CEA average for all Canadian electric utilities - - - - -
* CEA data for 2014 unavailable.



Serving customers

Recognized as an industry leader in customer satisfaction, Manitoba Hydro is committed to providing superior service and ensuring exceptional value for our customers.

Electricity customers: 555 760

Natural Gas customers: 272 228

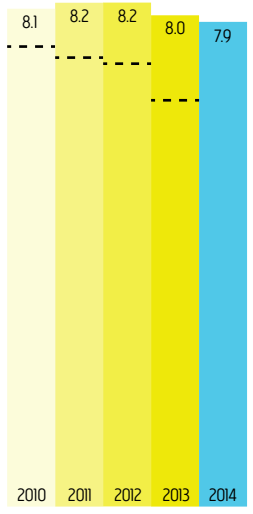
Cumulative Power Smart energy savings (electric):

2.48 billion kilowatt hours

Cumulative Power Smart energy savings (natural gas):

88.3 million cubic metres

Customer Satisfaction with Overall Service
(Source: MH quarterly customer satisfaction tracking study)



CEA average for all Canadian electric utilities - - - -
* CEA data for 2014 unavailable.

Preparing to replace a decayed cross-arm.

Serving customers

Extending Power Smart's reach

For over two decades Manitoba Hydro has been finding ways to help customers reduce energy use and lower their bills. That innovation continued in 2013-14 with the introduction of two new Power Smart initiatives.

The Power Smart for Business Pay As You Save (PAYS) Financing Program for commercial customers was launched in September. Working in conjunction with the full suite of Power Smart for Business incentive programs, PAYS provides attractive financing to help mitigate the capital cost barrier often associated with upgrading to an energy efficient technology. Financing is available with 10- to 25-year amortizations, depending on the energy efficiency upgrade, as long as the monthly repayment for the upgrade is less than the estimated annual utility savings calculated on an average monthly basis. Some of the energy efficiency upgrades eligible for financing with PAYS include insulation, LED lighting and geothermal heat pump systems.

In June, Manitoba Hydro introduced a new program that seeks to install geothermal heat pump systems on a mass scale throughout First Nation communities where homes typically use electric heat. The Power Smart Community Geothermal Program provides technical guidance, energy bill assessments and utilizes the residential PAYS Financing Program so community members can pay for the majority of the system through energy savings realized by the conversion to geothermal.

Through a partnership with Aki Energy, a non-profit social enterprise group, the Community Geothermal Program also created employment opportunities within First Nation communities. Community residents were trained in the installation and ongoing maintenance of the geothermal systems. This training was funded by the First Nations themselves. In 2013, 108 geothermal installations were completed in Fisher River Cree Nation and Peguis First Nation. At the end of the fiscal year, discussions were underway with four other First Nations on participation in the program.

Helping customers save

Manitoba Hydro offered 30 Power Smart programs including 16 for customers in the commercial sector and five for the industrial sector.

The Power Smart Bio-energy Optimization Program, for example, helped industries to use new technologies that convert waste streams into energy sources. These technologies can replace energy purchases from Manitoba Hydro and lower operating costs. Tundra Oil and Gas utilized the program to install three micro-turbines that use flare gas to generate electricity at the company's oil and gas battery site near Cromer, Manitoba. The battery site receives

Investment in Power Smart programs:

$34 million

crude oil from surrounding wells and then removes the water and petroleum gases. The water is injected back into the oil producing formation and the petroleum gas is typically flared at site. The micro-turbines are capable of using that gas to generate 180 kilowatts and supply 1.4 million kilowatt hours of energy per year. The Bio-energy Optimization Program supported the project's feasibility study as well as the implementation phase.

The Performance Optimization Program helped Boeing Canada to identify improvements to the compressed air system at their Winnipeg manufacturing facility. A new energy efficient compressed air production and treatment system was installed that included multiple screw compressors, larger storage reserves, cycling dryers and sequenced compressor controls. In addition to installation of new equipment, an aggressive compressed air leak management and repair program further reduced energy use. The resulting efficiency improvements increased reliability at the plant and cut the energy costs of operating the compressed air system by 80 per cent, enabling Boeing to achieve load reductions of 583 kilowatts and annual energy savings of approximately 4.1 million kilowatt hours.

The community of La Salle worked with Manitoba Hydro to design and build a new community centre in accordance with Power Smart Design Standards. The 1 600 square metre multipurpose recreation and fitness centre is at least 33 per cent more efficient than a typical centre with features such as: high levels of roof, wall and floor insulation; ventilation heat recovery; energy efficient lighting fixtures; and a high efficiency condensing hot water tank. The corporation provided technical advice as well as financial incentives through the Power Smart New Buildings Program.

Modernizing the service model

As part of an ongoing effort to modernize operations, Manitoba Hydro began consolidating rural district offices in southern Manitoba into regional customer service centres to improve customer service and reduce costs. At the end of the fiscal year, 19 of the corporation's district offices closed with an additional five offices slated to close by the end of the 2016-17 fiscal year. When complete, the consolidation is expected to reduce costs by approximately $2 million annually and avoid another $50 million in costs associated with needed facility upgrades to the 24 affected locations.

Since 2007, there has been a steady decline in customer transactions at district offices and a corresponding shift to using customer service centres or making bill payments online or by phone. The consolidation of staff will allow Manitoba Hydro to use resources more efficiently, while maintaining service levels to all customers. It will also further optimize the corporation's Mobile Workforce Management system which links computers in over 600 field trucks across the province. The system

Reduction in customer costs through

Power Smart: $112.9 million

Serving customers

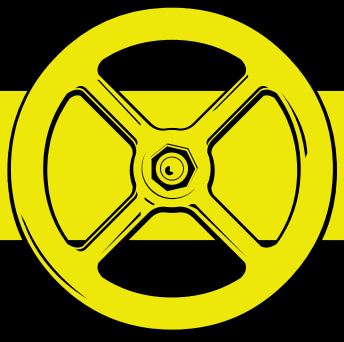
enables dispatch offices in Brandon, Selkirk and Winnipeg along with customer service centres to wirelessly assign field staff based on location, driving times, work priority and skills required. This centralized work planning combined with the relocation of staff and equipment in regional centres will strengthen electrical outage response and enhance system maintenance.

Responding to service disruptions

Electricity and natural gas service are critical parts of modern life; however disruptions in that service are an unfortunate reality of the energy utility business. As part of an effort to maintain the safety of all people as well as limit the damage to Manitoba Hydro and customer assets, the corporation has a comprehensive emergency response program to ensure an effective and coordinated response to possible emergencies and disasters. That program includes business continuity planning and continuous improvement.

On June 25, Manitoba Hydro staff responded to power outages affecting approximately 7 000 customers after heavy rains, lightning and high winds pounded the southwestern corner of the province. Over 12 centimetres of rain and winds exceeding 80 kilometres per hour resulted in 13 broken distribution poles, 30 leaning poles, 16 damaged transformers and 111 breaks in conductors. Employees from across the corporation responded and were able to restore power to virtually all customers within 12 hours. Less than three weeks later high winds and intense lightning again hit the southwestern corner causing outages to over 1 500 customers. Staff once again rose to the challenge working through the night to restore power to almost all customers by the next day. Repairs required included replacing 19 poles, installing six new transformers and 44 insulators, reinstalling 10 spans of three-phase conductor and repairing 131 conductor breaks.

In January, a breach in a TransCanada Corporation natural gas pipeline near Otterburne disrupted supply to Manitoba Hydro's system in south central Manitoba leaving about 3 600 customers without gas service. Facing a multiple day outage with temperatures dipping below -40 degrees Celsius, the corporation worked closely with the Provincial Emergency Measures Organization to identify critical community sites, such as hospitals, personal care homes and public warming centres, and then with TransCanada to source a temporary supply of compressed natural gas that was trucked in from Saskatchewan to service those sites. Once TransCanada repaired their pipeline, Manitoba Hydro staff went door-to-door, visiting all affected customers to ensure natural gas service was safely restored and to assist with relighting appliances. Service to all customers was restored within four days of the initial disruption. Throughout the outage, Manitoba Hydro worked closely with TransCanada to keep customers as well as municipal and provincial officials informed, providing regular media updates and important safety information.



Volume of natural gas delivered:

2 280 million cubic metres

Working with Boeing Canada staff, Manitoba Hydro helped make energy efficiency improvements to the compressed air system at Boeing's plant in Winnipeg.

Promoting safety

Maintaining a safe workplace and encouraging public safety around our facilities are critical components of all Manitoba Hydro activities.

Accident Frequency Rate:
Incidents per 200 000 hours worked
Target: < 0.6

0.7

Accident Severity Rate:
Calendar days lost per 200 000 hours worked
Target: < 12.0 days

11.1

High Risk Incidents:
Target: 0

0

Tailboard meetings are held prior to all site or field work to review job plans and ensure all safety hazards are identified, discussed and understood.

Promoting safety

Creating a culture of safety

Manitoba Hydro's workplace safety performance, as measured by two key indicators, was among the best in the last decade. In 2013-14, the corporation achieved an accident frequency rate of 0.69 incidents per 200 000 hours worked and an accident severity rate of 11.07 calendar days lost due to workplace injury or illness per 200 000 hours worked.

A number of initiatives were introduced during the fiscal year as part of an ongoing effort to instill a culture of safety among employees. In October, 16 Life Saving Rules were introduced to set a new basic standard for employee safety at Manitoba Hydro. Examples of these simple rules include: all workers must be qualified and authorized to perform work at Manitoba Hydro; obtain excavation authorization and use shoring as required; and, use personal protective equipment as required. The concepts inherent in the Life Saving Rules are to be incorporated into safe work procedures and all work activities within the areas of design, material specification, purchasing, contract administration, construction, operation and maintenance.

The corporation also adopted a new, non-subjective safety performance measure that will track the number of serious incidents opposed to high risk incidents beginning in 2014-15. These serious incidents will be communicated through safety incident alerts to managers, field safety officers, bargaining units and all employees in the business unit where the incident occurred or for whom the incident has direct relevance. The intent of these timely alerts is to reduce accidents by drawing attention to the incidents and reinforcing safe work practices.

A year-long internal safety awareness campaign kicked off in January featuring 12 employees who consistently display a personal commitment to safety in their work responsibilities and performance. These safety ambassadors and their personal reasons for staying safe at work and home are profiled throughout the year in the corporation's internal newsletter, on monthly posters displayed at various work locations and through quarterly videos. This is the third year for the safety campaign.

Manitoba Hydro's internal safety awareness campaign profiles employees who consistently display a personal commitment to safety.

Promoting public safety

Safety and educational resources from Manitoba Hydro including presentations, in-services, videos and educational kits continue to be in high-demand by schools throughout the province. For example, the corporation provides resources instructing students and drivers on what to do if a school bus makes contact with a downed power line. Brochures were distributed to 21 870 students who rode a bus to school as were another 1 100 copies of pamphlets specifically targeted at bus drivers. Video segments on school bus safety and safe exit from a vehicle were also viewed at 68 schools. In total, presentations promoting safety around natural gas and electricity were delivered to over 10 000 students in 2013-14.

An educational iPad app developed by Manitoba Hydro to help teach children about electrical safety had more than 3 000 downloads in the past fiscal year. Electric Gremlins takes the player on a race through a maze of wires to find and fix electrical hazards. Available free-of-charge on iTunes, the app is promoted through schools province-wide. Versions for iPhones and iPods as well as Android devices are in the final stages of development.

Protecting the environment

Manitoba Hydro strives to uphold the principles of sustainable development, incorporating environmental awareness and protection in everything we do.

Amount of generation from renewable sources:

99.6%

Number of sturgeon stocked in the Nelson River since 1994:

173 400

Total annual greenhouse gas emissions in 2013:

163 kilotonnes CO_2 equivalent

Annual target (6% below 1990 levels):

520 kilotonnes

A Nelson River Sturgeon Board employee returns a sturgeon to the Nelson River after collecting data about its weight, length and age. The Nelson River Sturgeon Board is funded, in part, by Manitoba Hydro and the Province of Manitoba.

Protecting the environment

Assessing Keeyask sustainability

The results from an independent assessment of the planned 695-megawatt Keeyask Generating Station under the Hydropower Sustainability Assessment Protocol were released in September. The report concluded 95 percent of the assessment aspects ranked above the good practice level. The project received the highest possible score on 16 of the 22 topics assessed, more than any other project assessed in the world to date.

The Hydropower Sustainability Assessment Protocol is a framework to assess hydropower projects according to a defined set of sustainability topics encompassing environmental, social, technical and financial issues using a consistent and globally applicable methodology. The protocol was developed by the Hydropower Sustainability Assessment Forum which included representatives from the hydropower sector as represented by the International Hydropower Association, social and environmental non-governmental organizations including the Nature Conservancy, World Wildlife Fund, Transparency International and Oxfam, governments in developed and developing countries, and financial organizations such as the World Bank and the Equator Banks.

Analyzing greenhouse gas emissions

A lifecycle analysis of the proposed Conawapa Generating Station by the Pembina Institute found the associated greenhouse gas emissions would be very small and lower than any of the generation alternatives. The results mirror those of previous analysis done for the Keeyask Generating Station and the Wuskwatim Generating Station. One component of the analysis is the implications associated with flooding. While greenhouse gases are produced and exchanged naturally by terrestrial and aquatic ecosystems, reservoirs may increase emissions of carbon dioxide and methane, primarily in the first decade following reservoir creation.

Monitoring at the Wuskwatim Generating Station in the first two years following creation of its reservoir indicated greenhouse gas concentrations were in the same range as pre-project levels. These results were consistent with Manitoba Hydro's expectation that the very small amount of flooding at Wuskwatim, less than one-half of one square kilometre, would have a minimal impact on greenhouse gas production.

Rehabilitating Wuskwatim site

Work continued in the fiscal year to rehabilitate areas disturbed by the construction of the Wuskwatim Generating Station and not required for long-term operation. Approximately 550 hectares of land, including borrow pits and contractor

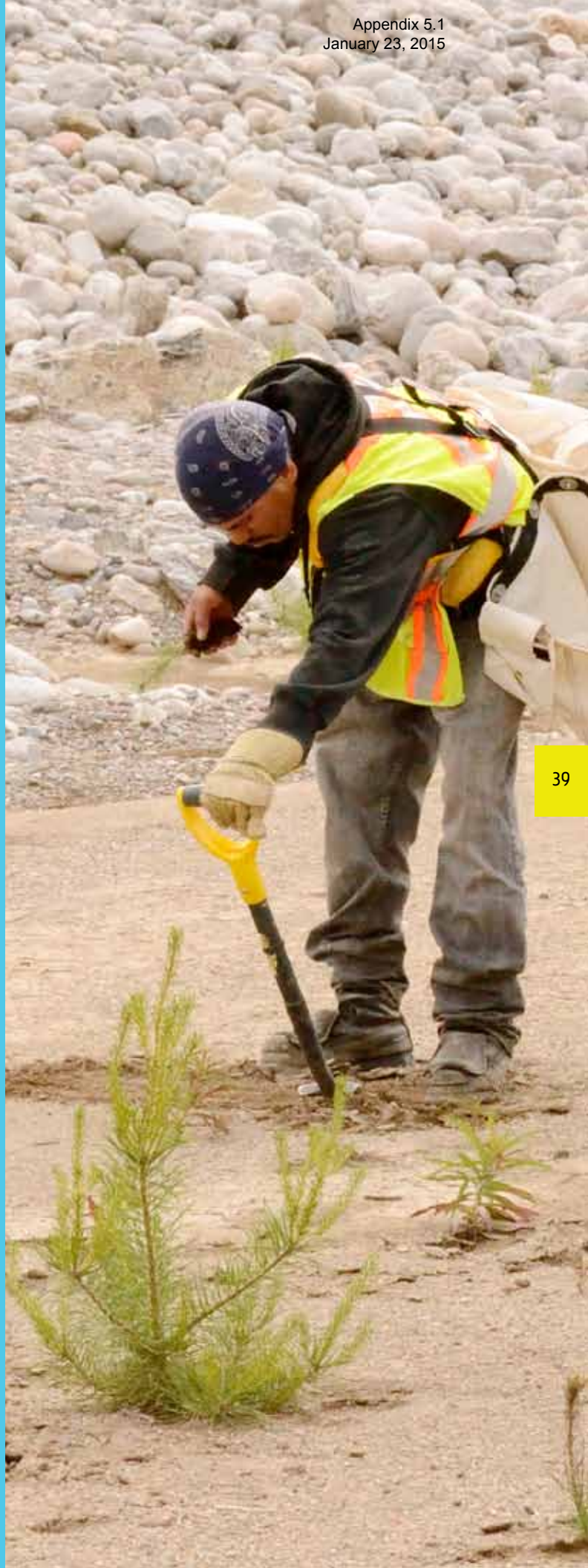
Named one of Canada's Greenest Employers: 2012, 2013, 2014

work areas, were shaped and graded, permanent erosion control works were established and cleared areas were re-vegetated with native species. Approximately 77 hectares of land have been seeded with native grass species and about 280 000 jack pine, black spruce and white spruce seedlings have been planted to the end of the fiscal year. Tree seedlings will be monitored over the next few years to assess growth and confirm survival.

A commitment to site rehabilitation by the Wuskwatim Power Limited Partnership – a partnership between Manitoba Hydro and the Nisichawayasihk Cree Nation – was set out in the Wuskwatim Generating Station's environmental impact statement.

Codifying agricultural bio-security

A new policy further ensures Manitoba Hydro's construction and maintenance activities on agricultural land do not contribute to the spread of disease, pests and invasive plant species. Developed in consultation with government agencies and industry, the new Agricultural Bio-security Policy formalized long-standing practices and created standard operating procedures that assess the potential bio-security risk, considering factors such as soil conditions and time of year, and prescribes actions to manage the risks. All Manitoba Hydro employees and contractors working on private agricultural land are required to follow these operating procedures.



Tree planting is part of the rehabilitation plan to restore areas affected by construction of the Wuskwatim Generating Station.

Protecting the environment

Collaborating on lake sturgeon

In December, Manitoba Hydro and the government of Manitoba signed a memorandum of understanding that recognized a common interest in the preservation and enhancement of lake sturgeon stocks. The memorandum established an implementation committee to undertake collaborative monitoring and research activities that will increase the knowledge of lake sturgeon in Manitoba. The committee will prepare an annual work plan to guide activities and will prepare a brief annual report highlighting the activities undertaken through the memorandum of understanding.

Manitoba Hydro is also providing up to $50 000 annually over five years under its Lake Sturgeon Stewardship and Enhancement Program for cooperative research projects to increase the body of scientific knowledge regarding the life stages of the species. The memorandum has a five-year term with provisions for extension upon mutual agreement.

Describing aquatic health

The Coordinated Aquatic Monitoring Program (CAMP) completed its first three-year monitoring report, based on data collected from 2008 to 2010. The report will be available on the program's new website at www.campmb.com. Manitoba Hydro, in cooperation with the Province of Manitoba, initiated CAMP in 2008 to monitor the aquatic health of water bodies affected by hydroelectric development. Working with experts from the International Institute of Sustainable Development, Fisheries and Oceans Canada and the University of Manitoba, the program is developing indicators for hydrology, water quality, aquatic insects and fish. These indicators will be used to describe the state of aquatic ecosystem health and for reporting to regulatory authorities, stakeholders and the general public.

Preparing for zebra mussels

A zebra mussel monitoring program on the Winnipeg and Red rivers was expanded to include the Jenpeg Generating Station, located on the Nelson River approximately 100 kilometres downstream of Lake Winnipeg. In October, the Province of Manitoba confirmed the presence of zebra mussels in Lake Winnipeg, the first such infestation in Manitoba. An invasive species that multiplies quickly, zebra mussels are one of the only freshwater mollusk that can firmly attach themselves to solid objects. As a result, they can clog intake structures at hydroelectric and thermal generating stations as well as hydraulic control structures. The corporation also initiated a study to review zebra mussel control methods used at stations operated by other North American utilities, identify systems or structures at risk of infestation and identify suitable zebra mussel control techniques.

Collecting aquatic invertebrates along the shore of Leftrook Lake as part of the Coordinated Aquatic Monitoring Program.

Supporting environmental awareness

Work began on a new interactive exhibit at the Manitoba Electrical Museum that explains Manitoba Hydro's environmental assessment activities and approach to environmental issues. Aimed at grade six students, the exhibit includes short videos featuring some of the science that the corporation undertakes before, during and after construction of major projects; highlights ecosystem health and key species such as caribou and sturgeon; and incorporates visual, audio and tactile components to engage learners. The exhibit is scheduled to be open to the public in the summer of 2014.

Manitoba Hydro's Environmental Partnership Fund provided funding or in-kind support to 20 local non-profit organizations in 2013. Established in 1993, the fund provides one time or multi-year contributions to support the development and implementation of environmental education projects with a sustainable development focus. One project receiving support in 2013 was the development of the Lake Friendly, What is Your H20 IQ, educational resource. Designed to provide educators with user-friendly locally relevant information and resources, the workbook explores issues related to water and the Lake Winnipeg watershed.

The Forest Enhancement Program provided funding to 62 projects in 2013 to enhance community forests and support forest education. One of those projects was the planting of 36 fruit trees in the South Osborne Community Orchard, Winnipeg's largest community garden. The orchard will grow fruit, up to 4 500 kilograms in a good harvest year, add diversity to the urban forest and provide a site for educational field trips. Since 1995, over 117 000 trees have been planted as a result of the Forest Enhancement Program.

Checking for zebra mussels at the Seven Sisters Generating Station on the Winnipeg River.

Building relationships

Manitoba Hydro strives to build productive relationships with employees, suppliers and other stakeholders who are integral to our ongoing success.

Contracts awarded to Manitoba companies:

$675 million

Contracts awarded to Aboriginal Manitoba companies:

$288 million

Members of the Walking Wolf Dance Troupe perform at Manitoba Hydro Place as part of the corporation's Aboriginal Awareness Week celebrations.

Building relationships

Building a diverse workforce

Manitoba Hydro continued to work to attract, develop and retain a skilled workforce that reflects the diversity of the province. Those efforts were recognized by the editors of Canada's Top 100 Employers for 2014. Manitoba Hydro was named to their list for the fourth consecutive year and was also identified as one of Canada's Best Diversity Employers.

Manitoba Hydro's Northern and Southern Aboriginal Pre-placement Training programs and the Aboriginal Line Trades Training Program hired a combined 27 new trainees in the fiscal year. These pre-placement programs provide on-the-job training, academic upgrading and mentorship to help Aboriginal candidates acquire skills needed to successfully move into Manitoba Hydro's technical trades training programs. Twenty-three previously hired candidates successfully completed their pre-placement training in the past year and were selected for the power electrician, operating technician or line trades training programs.

Working with the University of Manitoba's Internationally Educated Engineers Qualification Program, Manitoba Hydro continued to support engineers who have trained abroad and want to fulfill the academic requirements of the Association of Professional Engineers and Geoscientists of Manitoba. Two graduates of the university's program were hired permanently into the corporation's Internationally Educated Engineer-in-Training Program. One previous cooperative work term student and subsequent graduate of the program was also hired into a permanent professional engineering position. Since 2004, Manitoba Hydro has awarded two bursaries a year, worth $1 500 each, to students enrolled in the program and provided cooperative work terms.

Strengthening Aboriginal connections

Manitoba Hydro continued to foster business relationships with Aboriginal companies, address the effects of its operations on Aboriginal communities and undertake activities intended to create an appreciation of Aboriginal culture in the workplace.

Using procurement strategies and policies, Manitoba Hydro created business opportunities for Aboriginal enterprises. These strategies included restricted tendering or creation of smaller custom work packages to suit the business capacities of a community in proximity of the work. Of the $675 million in contracts awarded to Manitoba companies in the 2013-14 fiscal year, $288 million was awarded to Manitoba Aboriginal companies.

In September, individual offers of settlement were made to commercial trappers from Moose Lake. The settlements address past, present and future commercial income loss arising from the development of the Grand Rapids Generating Station.

Percentage of employees who are women: 24.5%

Percentage of employees who are Aboriginal: 17.6%

Percentage of employees with disabilities: 9.9%

Percentage of employees who are visible minorities: 7.8%

Manitoba Hydro's Boat Patrol Program, Debris Management Program and Safe Ice Trails Program played integral roles in improving, mitigating and compensating for adverse impacts and providing for safe navigation on waterways affected by hydroelectric development.

The Boat Patrol Program employed about 35 seasonal Aboriginal workers from communities in northern Manitoba for 19 boat patrol crews. These crews mapped and recorded daily routes, marked deadheads and reefs, identified debris work areas, placed hazard markers and gathered floating debris. The Debris Management Program implemented about a dozen community-based contracts for identifying debris work locations on shore and collecting then burning the debris. Under the Safe Ice Trails Program seasonal contract workers, typically resource users hired from Northern Aboriginal Communities, created approximately 2 000 kilometres of ice trails. The trails were then monitored by local Manitoba Hydro employees who mapped trails, tested ice thickness, cleared obstructions and routinely monitored and patrolled to provide safe alternatives to traveling on unchecked routes.

Ongoing promotion of Aboriginal cultural awareness among employees included celebrating National Aboriginal Awareness Week for the eighth consecutive year. Activities between May 22 and 24 included a lunch-time presentation by Commissioner James Wilson of the Treaty Relations Commission of Manitoba; a performance by the Walking Wolf Dance Troupe; and an Aboriginal crafters marketplace at Manitoba Hydro Place that featured a musical performance by employees and teepee teachings by an Aboriginal elder. The corporation also offered Aboriginal Cultural Awareness workshops for employees. Over 110 workshops have been held since 2005 with nearly 2 000 employees participating.

Contributing to communities

Manitoba Hydro continued to work with Project Search, a unique business-partnered transition program for high school students with an intellectual disability. The 10-month program is unique in that students are fully embedded in a business workplace for the duration of their last year of high school. Students started and ended their day in a classroom at Manitoba Hydro Place where they learned employability skills. Between classes, students learned job skills while participating in a variety of work experience assignments. The program is targeted at students whose main goal is employment and who will benefit from career exploration. In June, seven students graduated from the program and from high school.

In 2013, Manitoba Hydro continued to be Canadian Blood Services' largest partner in the province. Employees donated over 1 000 units of blood for the second year in a row, including 133 donations in December

Building relationships

alone – the most donations from a Manitoba organization in one month for all of 2013.

Over 1 200 athletes competed in the Manitoba Hydro Power Smart Winter Games over six days in March. Morden, Winkler and the Rural Municipality of Stanley hosted the athletes who competed in 13 different sports. Manitoba Hydro has sponsored the games since 2002 and been title sponsor since 2006.

In September, Manitoba Hydro representatives participated in the official opening of a 40-kilometre addition to the TransCanada Trail at the Seven Sisters Generating Station on the Winnipeg River. Manitoba Hydro supported the project by allowing the trail to cross over the generating station and dikes as it winds its way between Old Pinawa Dam Provincial Park and Whiteshell Provincial Park.

Other community events supported in 2013-14 included the Power Smart Santa Claus Parade in Winnipeg, the Aurora Winter Fest in Churchill and the Winnipeg Symphony Orchestra's Power Smart Holiday tour which took the symphony to Steinbach, Winkler, Portage la Prairie and the Baker Hutterite Colony near MacGregor.

Helping a neighbour

When one of the worst ice storms in decades hit southern Ontario in December knocking out power to over 300 000 Toronto Hydro customers, Manitoba Hydro was quick to extend an offer of assistance. Within hours of Toronto Hydro accepting, there was a plane load of Manitoba Hydro volunteers ready to go. On Christmas Eve morning, 42 employees flew to Toronto where they worked 12-hour shifts in severe conditions, helping to maintain an around-the-clock response to the storm damage. Toronto Hydro was very appreciative and praised the Manitoba Hydro employees for their work ethic, safety focus and ability to deal with challenging circumstances. All employees returned to Winnipeg on December 31.

Students from St. Laurent School build a bottle opener out of nuts and bolts as part of a Manitoba Hydro recruitment event in the community.

Manitoba Hydro staff return home after helping Toronto recover from a devastating ice storm over the Christmas holiday. Photo by John Woods, Winnipeg Free Press.

Corporate governance

The affairs of Manitoba Hydro are overseen by a board whose members are appointed by the Lieutenant Governor in Council of Manitoba.

The board's primary responsibility is to ensure that the corporation carries out its legislative mandate. The board considers the principles of sustainable development, and Manitoba Hydro's code of ethics, in its decisions. Minutes of board meetings are public, and the corporation's annual report and quarterly financial statements are tabled in the legislature. The annual report is approved by a committee of the Manitoba Legislature. The mandate of the corporation is reviewed by The Crown Corporations Council.

The Audit Committee of the board reviews Manitoba Hydro's integrated financial forecast, and makes recommendations to the board. The Audit Committee reviews whether Manitoba Hydro's quarterly and annual financial statements present fairly the financial position and performance in accordance with generally accepted accounting principles. The Audit Committee confirms whether management has assessed areas of potential significant financial and operational risk and has taken appropriate measures, and the Audit Committee reviews management's systems for ensuring legal compliance. The Audit Committee obtains opinions from external auditors, internal auditors, and management on the quality of internal controls, and verifies that external auditors have performed their duties with sufficient independence from management.

The Human Resources and Governance Committee assists the board with succession planning and human resources issues. The Committee reviews the board's approach to corporate governance with a view to best practices and Manitoba Hydro's mandate.

All of the members of the board sit on the Planning Committee, which approves the corporate strategic plan.

Integrity Program

Manitoba Hydro encourages employees and others to speak up on matters of concern without fear of reprisal, through its Integrity Program. All disclosures under the Integrity Program are protected by strict rules of confidentiality.

Below is a summary of all disclosures received during 2013-14 which allege wrongdoing as defined in The Public Interest Disclosure (Whistleblower Protection) Act:

Total number of disclosures received:	2
Number of disclosures ongoing from 2012-13:	10
Number of disclosures acted upon:	12
Number of disclosures not acted upon:	0
Number of investigations commenced/continued:	12
Number of disclosures that were verified:	3
Number of disclosures that were not verified:	5
Number of disclosures carried forward to 2014-15:	4

Corrective action was taken for each verified incident, as follows:

- Funds were recovered from a service agent for not acting in the corporation's best interests and the contract was terminated.
- An employee received a written warning for abusive comments to a female fellow worker, and counseling was provided to the entire department.
- Two employees each received a five-day suspension and one of them was temporarily demoted for engaging in private work in conflict with their company work.

Manitoba Hydro-Electric Board

Appearing left to right:

Carmen Neufeld
Tina Keeper
Michael Spence
Dr. John Loxley
Eugene Kostyra

William C. Fraser, FCA, Chair
David Crate
Dudley Thompson
James Husiak, CA
Larry Vickar

Not in photo: Frank Whitehead

Manitoba Hydro Senior Officers

Appearing left to right:

Bruce Barrett, P. Eng
Vice-President, Major Capital Projects

Lloyd Kuczek, P. Eng, MBA
Vice-President, Customer Care & Energy Conservation

Bryan Luce
Vice-President, Human Resources and Corporate Services

Ken M. Tennenhouse, LL.B
Vice-President, General Counsel and Corporate Secretary

E. Ruth Kristjanson, BA (Hons), MA
Vice-President, Corporate Relations

Scott A. Thomson, CA
President and Chief Executive Officer

G. Brent Reed
Vice-President, Customer Service and Distribution

Lorne Midford, P. Eng
Vice-President, Generation Operations

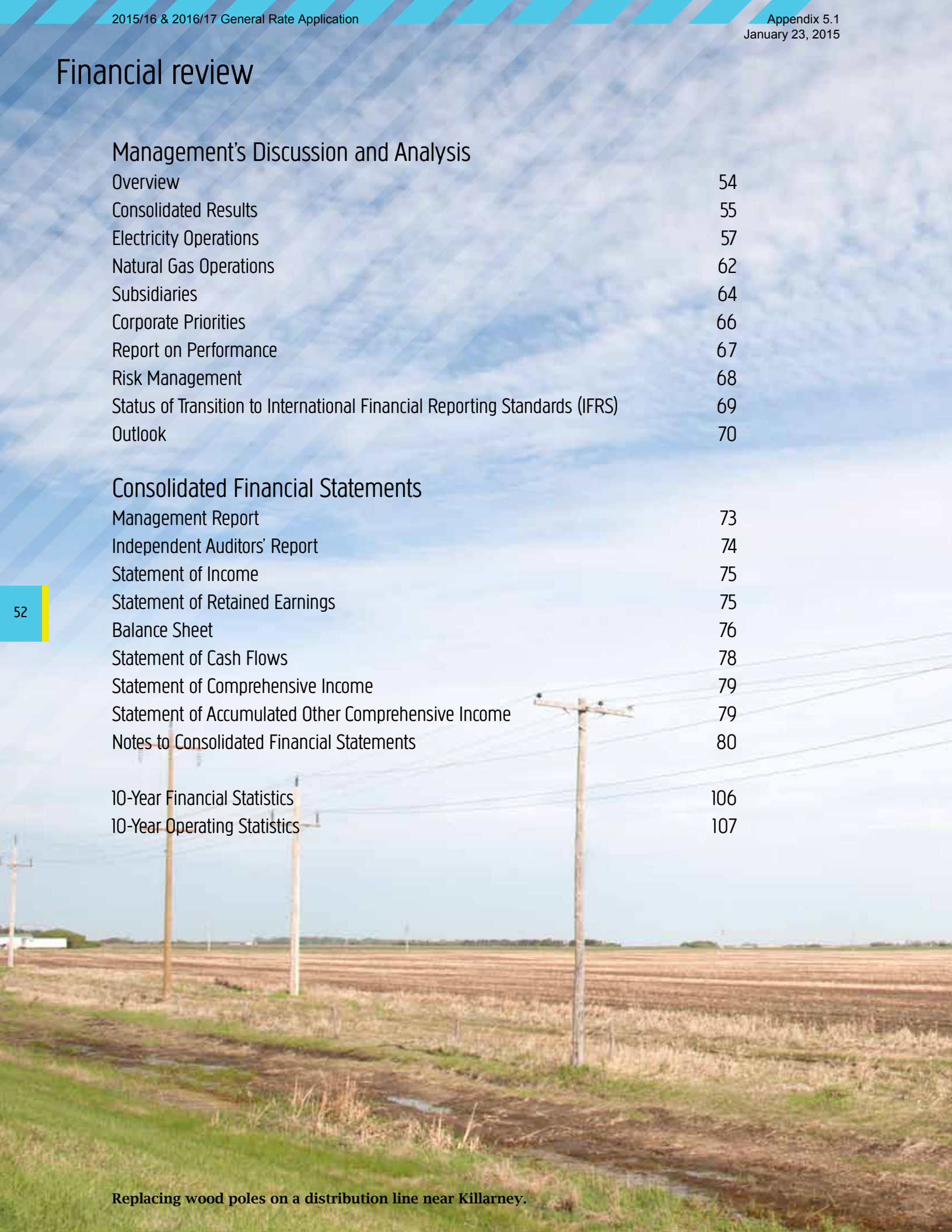
Shane Mailey, P. Eng
Vice-President, Transmission

Darren B. Rainkie, CA, CBV
Vice-President, Finance and Regulatory

Financial review

Management's Discussion and Analysis

Consolidated Financial Statements



Replacing wood poles on a distribution line near Killarney.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the Annual Report provides comments on the financial results and operational performance of Manitoba Hydro for the year ended March 31, 2014 with comparative information where applicable. The MD&A also provides an assessment of Corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which are likely to cause actual results to differ from those anticipated. For context, the MD&A should be read in conjunction with the consolidated financial statements and notes.

As a provincially-owned Crown Corporation, Manitoba Hydro's mandate is to provide for the continuance of a supply of energy to meet the needs of Manitoba consumers in the most reliable, economic, and environmentally sustainable manner. In fulfilling its mandate, Manitoba Hydro has assessed all known risks and has established a number of priorities with related measures and targets. In addition to a review of financial and operational performance, the MD&A also reviews Manitoba Hydro's progress towards achieving its strategic priorities.

OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations for the fiscal year ended March 31, 2014 was $174 million compared to $92 million in the previous fiscal year. The increase in net income of $82 million was largely attributable to increased revenues from domestic and extraprovincial electricity sales partially offset by higher expenses.

Consolidated net income for the 2014 fiscal year was comprised of net income of $154 million in the electricity sector and net income of $20 million in the natural gas sector. The gas sector net income represented a $12 million improvement over the previous year which was mainly a result of colder weather during the winter of 2013-14 compared to the winter of 2012-13.

Consolidated net income for 2013-14 was higher than the forecasted net income of $136 million largely due to higher than forecast electricity and gas revenues partially offset by higher than forecast power purchases.

Net income of $174 million contributed to the corporation's retained earnings of $2 716 million at March 31, 2014, the highest level of equity in the corporation's history. The interest coverage and capital coverage ratios exceeded the target level while the debt to equity ratio was close to the target level for the year.

CONSOLIDATED RESULTS

The following schedule summarizes Manitoba Hydro's consolidated financial results for the fiscal year ended March 31, 2014 compared to the previous fiscal year:

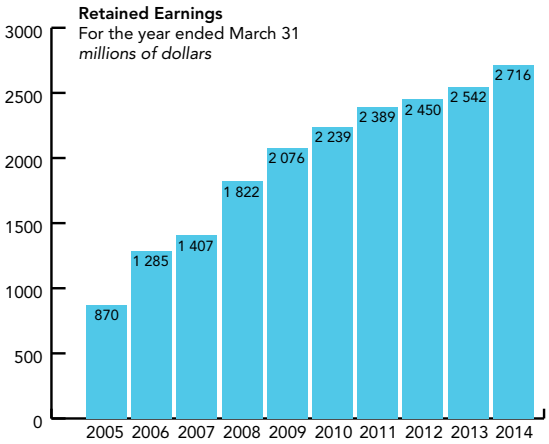
	Electricity		Natural Gas		Consolidated		Change
	2014	2013	2014	2013	2014	2013	
	millions of dollars						
Revenues							
Manitoba (net of cost of gas sold)	1 475	1 410	163	147	1 638	1 557	81
Extraprovincial	439	353	-	-	439	353	86
	1 914	1 763	163	147	2 077	1 910	167
Expenses	1 782	1 692	143	139	1 925	1 831	94
Net income before non-controlling interest	132	71	20	8	152	79	73
Net loss attributable to non-controlling interest	22	13	-	-	22	13	9
Net income	154	84	20	8	174	92	82
Total assets	14 950	13 928	689	614	15 639	14 542	1 097
Retained earnings	2 654	2 500	62	42	2 716	2 542	174
Financial Ratios							
Debt:Equity					76:24	75:25	
Interest coverage					1.28	1.15	
Capital coverage					1.35	1.25	

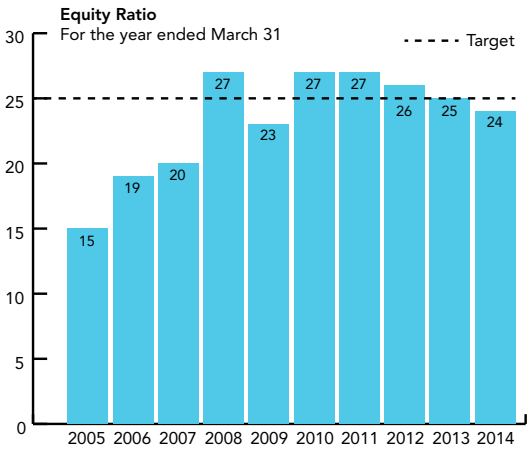
Revenues from consolidated electricity and natural gas operations totaled $2 329 million in 2013-14 compared to $2 092 million in the previous fiscal year. After deducting the cost of gas sold, which is a pass-through cost with no mark-up to customers by Manitoba Hydro, revenues amounted to $2 077 million compared to $1 910 million in the prior year. The $167 million or 8.7% increase in revenues was largely attributable to increased extraprovincial electricity sales due to favourable water conditions and higher export prices, increased domestic electricity sales due to colder weather than the previous year and electricity rate increases.

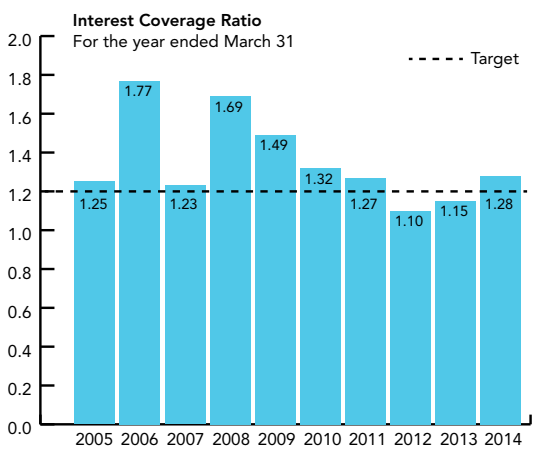
Expenses for electricity and natural gas operations totaled $1 925 million in 2013-14, an increase of $94 million or 5.1% over the previous year. The increase was largely due to a $44 million increase in fuel and power purchased, a $24 million increase in operating and administrative expense and a $19 million increase in depreciation and amortization.

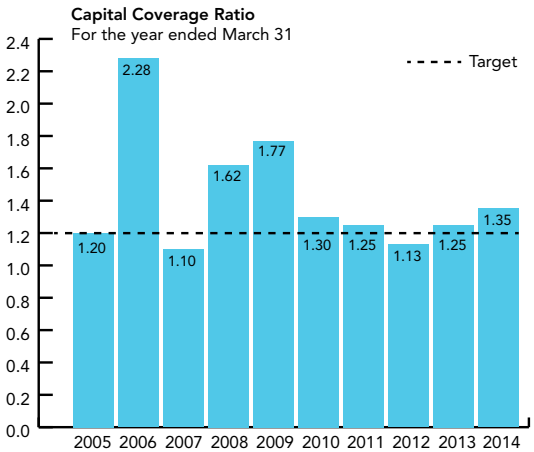
Net loss attributable to non-controlling interest represents Taskinigahp Power Corporation's (TPC) 33% share of the Wuskwatim Power Limited Partnership's (WPLP) operating results for 2013-14. The WPLP has two limited partners, Manitoba Hydro and TPC which is owned beneficially by Nisichawayasihk Cree Nation (NCN) and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro.

Net income from electricity and natural gas operations amounted to $174 million in 2013-14 compared to $92 million in the previous year. The consolidated net income increased retained earnings to $2 716 million at March 31, 2014. As indicated in the accompanying chart, net income of $174 million resulted in the equity ratio being 24% at March 31, 2014, slightly lower than the corporation's target of 25%. The capital coverage ratio of 1.35 exceeded the target of 1.20 and the interest coverage ratio of 1.28 exceeded the target of 1.20.









Financing

Cash provided from operations in 2013-14 was $690 million, an increase of $101 million from the previous year. The increase reflects higher domestic and extraprovincial sales than the previous year.

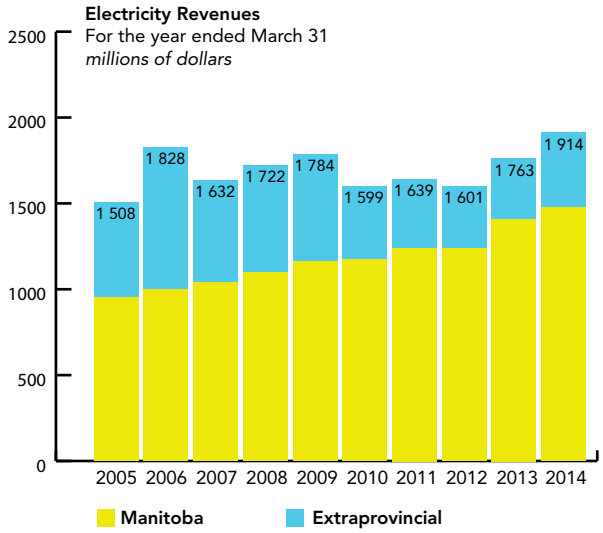
Proceeds from financing arranged by the corporation amounted to $1 320 million in 2013-14 compared to $807 million in the previous year. Current year proceeds were used to fund new capital requirements and to retire long-term debt maturing during the year.

During 2013-14, the corporation retired $613 million of debt comprised of Provincial Advances of $575 million, HydroBonds of $14 million and Manitoba Hydro-Electric Board Bonds of $24 million.

ELECTRICITY OPERATIONS

Electricity Revenues

Electricity revenues totaled $1 914 million, an increase of $151 million or 8.6% from the previous year. The increase was the result of increases of $86 million in extraprovincial revenues and $65 million in domestic revenues. The increase in extraprovincial revenues was primarily due to increases in export volumes resulting from higher generation from stations on the Lower Nelson River due to higher flows than prior year and higher export prices. The increase in domestic revenues was primarily due to higher consumption as a result of one of the coldest winters on record in Manitoba and rate increases.



The breakdown of electricity revenues by customer segment is as follows:

Electricity Revenues and kWh Sales

For the year ended March 31

	2014	2013	% change	2014	2013	% change
	millions of dollars			*millions of kWh*		
Manitoba						
Residential	606	554	9.4	7 889	7 334	7.6
General service	497	465	6.9	7 269	6 877	5.7
Industrial	302	299	1.0	7 199	7 266	(0.9)
Other revenue	70	69	1.4	-	-	-
	1 475	1 387	6.3	22 357	21 477	4.1
1% rate deferral	-	23	-	-	-	-
Manitoba revenue	1 475	1 410	4.6	22 357	21 477	4.1
Extraprovincial	439	353	24.4	10 537	9 087	16.0
	1 914	1 763	8.6	32 894	30 564	7.6

Revenues from electricity sales in Manitoba totaled $1 475 million in 2013-14, an increase of $65 million from the previous year. Electricity consumption in Manitoba was 22 357 million kilowatt-hours, 880 million kilowatt-hours higher than the previous year. The increase in consumption was mainly due to higher heating loads as a result of colder winter weather in 2013-14 and customer growth.

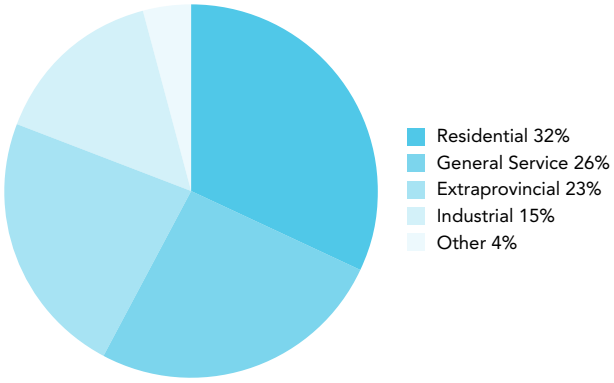
Revenues from sales to residential customers for 2013-14 amounted to $606 million, an increase of $52 million or 9.4% from the previous year. The increase was primarily a result of a higher heating load from colder winter weather, rate increases implemented during the year and increases in the number of residential customers of 6 400 to 486 654, an increase of 1.3% compared to the previous year.

Revenues from general service customers amounted to $497 million in 2013-14, an increase of $32 million or 6.9% from the previous year. The increase was mainly attributable to the rate increases implemented during the year, colder winter weather and an increase of 577 customers.

Revenues from large industrial customers amounted to $302 million, an increase of 1.0% or $3 million from the previous year. The increase was mainly the result of rate increases implemented during the year and an increase of customers partially offset by decreased consumption.

Extraprovincial revenues totaled $439 million in 2013-14, an increase of $86 million from the previous year. The increase reflects higher U.S. sales volumes resulting from higher generation from stations on the Lower Nelson River due to higher flows than prior year and higher export prices partially resulting from favorable foreign exchange rates on U.S. sales. Of the total extraprovincial revenues, $392 million or 89% was derived from the U.S. market, while $47 million or 11% was from sales to Canadian markets.

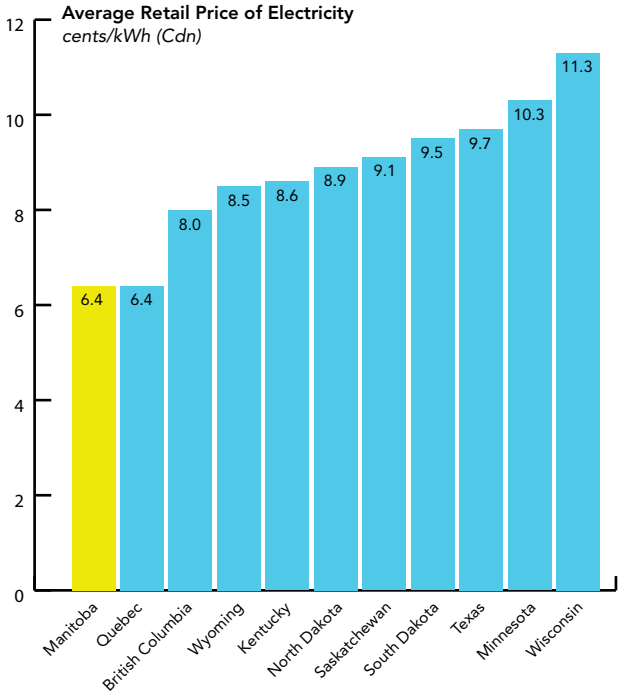
Electricity Revenues
For the year ended March 31, 2014



Electricity Rates

The Public Utilities Board (PUB) issued Order 43/13 on April 26, 2013, which approved a 3.5% increase in electricity rates effective May 1, 2013. The PUB directed that 2.0% of the 3.5% increase be included in general revenues and that 1.5% of the approved rate increase be set aside to be utilized to mitigate rate increases when Bipole III is placed in-service. During the 2013-14 fiscal year $19 million was set aside for this purpose.

Manitoba Hydro's domestic electricity rates continue to be among the lowest overall in North America. This is illustrated in the accompanying chart which was excerpted from utilities' annual reports and United States Department of Energy and Edison Electric Institute publications.



Electricity Expenses

Electricity expenses totaled $1 782 million for 2013-14, an increase of $90 million or 5.3% over the previous year. The increase in expenses was the result of a $44 million increase in power purchased, a $21 million increase in operating and administrative, an $18 million increase in depreciation and amortization, a $10 million increase in capital and other taxes, a $7 million increase in water rentals and assessments and a $6 million increase in other expenses, partially offset by a $16 million decrease in finance expense.

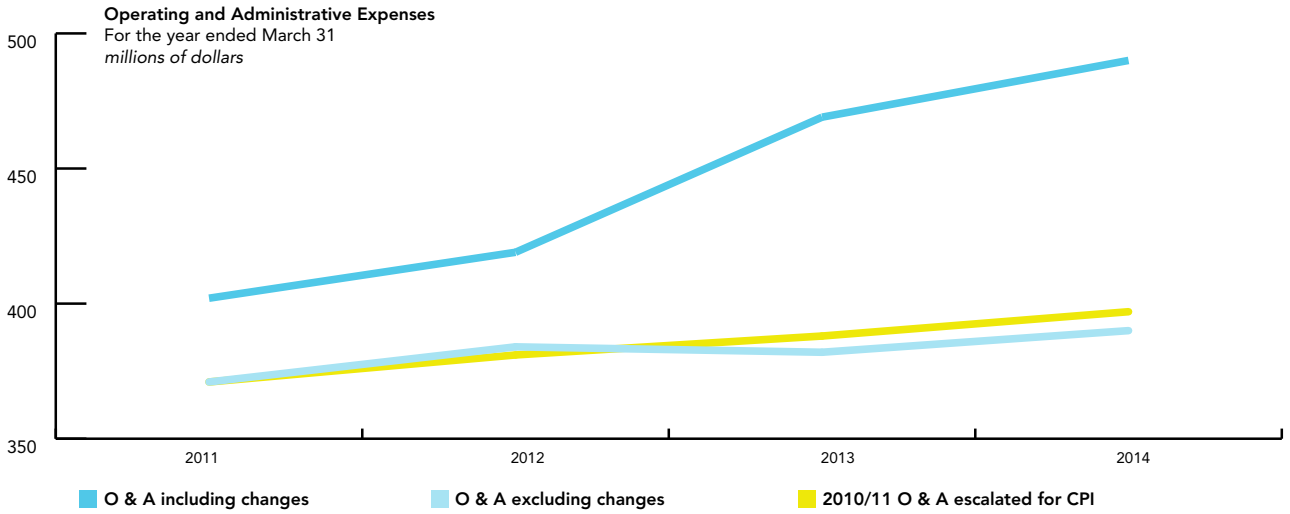
Electricity Expenses

For the year ended March 31

	2014	2013	% change
	millions of dollars		
Operating and administrative	490	469	4.5
Finance expense	436	452	(3.5)
Depreciation and amortization	412	394	4.6
Water rentals and assessments	125	118	5.9
Fuel and power purchased	177	133	33.1
Capital and other taxes	97	87	11.5
Other expenses	36	30	20.0
Corporate allocation	9	9	-
	1 782	1 692	5.3

Operating and administrative expenses are comprised primarily of labour, material and overhead costs associated with operating, maintaining and administering the facilities and programs of the corporation. In 2013-14, operating and administrative expenses for electric operations amounted to $490 million, an increase of $21 million over 2012-13. The increase in operating and administrative expenses was primarily due to higher pension and other benefit costs of $13 million related to changes in discount and mortality rates and greater employer contribution requirements. After adjusting for these changes, the increase in operating and administrative expenses for 2013-14 was $8 million or 1.7% as compared to the previous year.

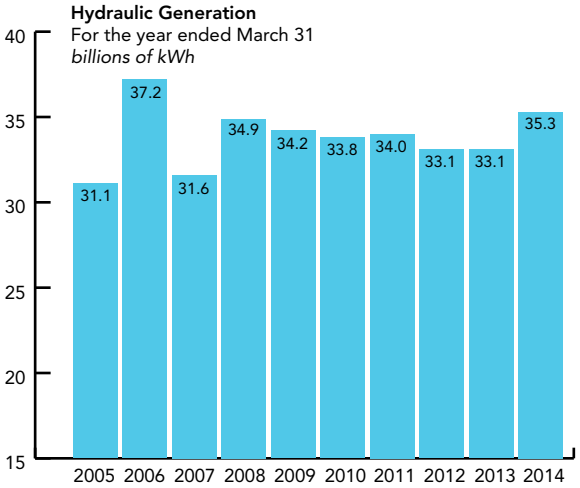
The following graph provides a comparison of the growth in operating and administrative expenses, including and excluding accounting changes as well as changes in the pension and benefit costs, as compared to changes in the consumer price index (CPI).



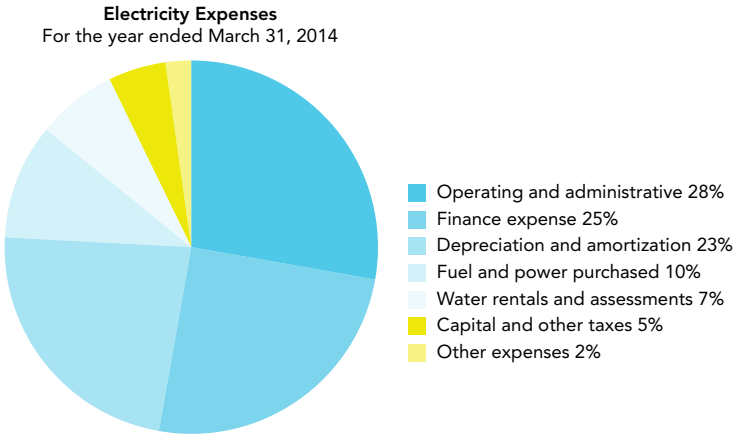
Finance expense totaled $436 million in 2013-14, a decrease of $16 million or 3.5% from the previous year. The decrease was primarily due to lower interest rates, higher realized foreign exchange gains on U.S. debt and higher recognized gains on the sale of U.S. sinking fund investments. This was partially offset by higher volumes of long-term debt to finance capital expenditures and a weaker Canadian dollar.

Depreciation and amortization expense amounted to $412 million in 2013-14, an increase of $18 million or 4.6% from the previous year. The increase was mainly attributable to new additions to plant and equipment coming into service, including the Wuskwatim Generating Station which was fully in-service during the 2013-14 fiscal year.

Water rentals and assessments amounted to $125 million in 2013-14, an increase of $7 million from the previous year. The increase reflects greater hydraulic generation due to higher water flows in 2014 compared to the prior year. Hydraulic generation amounted to 35.3 billion kilowatt-hours in 2013-14 compared to 33.1 billion kilowatt-hours in 2012-13.



Fuel and power purchased includes fuel for the thermal generating stations and remote diesel sites, purchases of wind power from the independently-owned St. Leon and St. Joseph wind farms and from electricity imports. Fuel and power purchased was $177 million in 2013-14, an increase of $44 million or 33.1% over 2012-13. The increase in power purchased was primarily the result of higher purchased volumes due to colder weather and higher system merchant purchases due to increased arbitrage opportunities between markets.

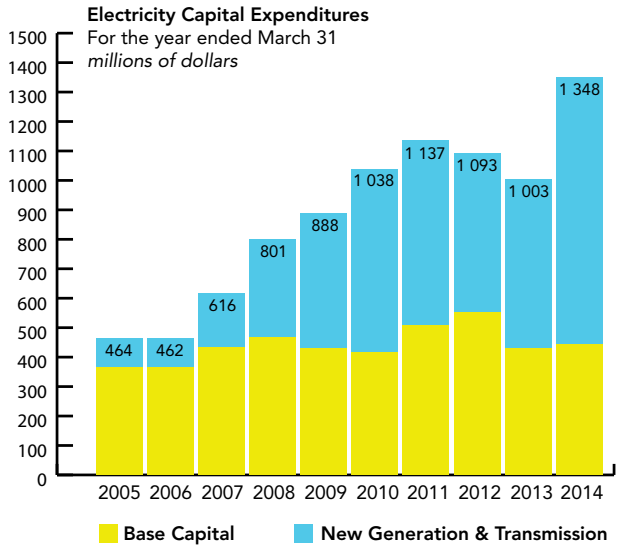


Capital and other taxes amounted to $97 million in 2013-14, an increase of $10 million or 11.5% compared to the previous year. The change was primarily due to increased capital taxes related to additional capital investment and a GST reassessment.

Other expenses include costs associated with the provision of professional consulting, operations, maintenance and project management services to external entities and other miscellaneous write-offs and expenditures. Other expenses amounted to $36 million in 2013-14, an increase of $6 million or 20.0% compared to the previous year. The increase was primarily the result of a write-off of property, plant and equipment under construction.

Electricity Capital Expenditures

Expenditures for capital construction totaled $1 348 million in 2013-14 compared to $1 003 million during the previous fiscal year. Capital expenditures for ongoing plant and equipment requirements, referred to as base capital, amounted to $444 million, an increase of $15 million compared to the previous year. The increase was attributable to higher expenditures on generating station, substation, distribution and transmission upgrades.



Major new generation and transmission capital expenditures of $904 million included $318 million related to the Keeyask and Conawapa generation facilities, $225 million related to the Bipole III transmission line, converter stations and collector lines, $237 million towards the Pointe du Bois Spillway replacement and generating station rehabilitation, $74 million for the Riel Station, $15 million related to the Wuskwatim Generating Station and transmission line and $20 million for upgrades to the Kelsey Generating Station.

NATURAL GAS OPERATIONS

Centra Gas Manitoba Inc. (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 247 010 residential and 25 218 commercial and industrial customers in Manitoba.

Net income in the gas sector was $20 million in 2013-14 compared to $8 million in the previous fiscal year. The improved financial performance over the previous year was primarily attributable to increased demand due to colder weather during the winter of 2013-14 compared to the winter of 2012-13 and to a 1% distribution rate increase.

Natural Gas Revenues

Revenues from the sale and distribution of natural gas during 2013-14 were $415 million, an increase of $86 million from the previous year. After deducting the cost of gas sold, which is a pass-through cost with no mark-up by Centra, net revenues amounted to $163 million, an increase of $16 million from 2012-13. The increase in net revenue was largely due to colder weather and higher distribution rates compared to the previous year. Natural gas deliveries were 2 280 million cubic metres in 2013-14 compared to 2 049 million cubic metres in 2012-13.

As directed by the PUB, $3.8 million of revenue from 2013-14 was set aside to continue a program targeted to low-income customers and qualifying seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces. At March 31, 2014, there is a remaining balance of $18 million in the Furnace Replacement Program.

Natural Gas Revenues and Deliveries

For the year ended March 31

	2014	2013	% change	2014	2013	% change
	millions of dollars			*millions of cubic metres*		
Residential	208	174	19.5	664	602	10.3
Large general service	124	95	30.5	603	523	15.3
Small general service	31	25	24.0	113	100	13.0
Large commercial & industrial	23	18	27.8	156	133	17.3
Interruptible	23	11	109.1	92	93	(1.1)
T-service and other	6	6	-	652	598	9.0
	415	329	26.1	2 280	2 049	11.3

Natural Gas Rates

In accordance with Centra's quarterly rate-setting methodology, annualized rates for natural gas supplied to residential customers changed during 2013-14 as follows:

- May 1, 2013 5.6% increase
- August 1, 2013 1.8% decrease
- November 1, 2013 1.4% increase
- February 1, 2014 6.4% increase

The change in natural gas rates reflects the fluctuations in pricing for natural gas purchased by Centra.

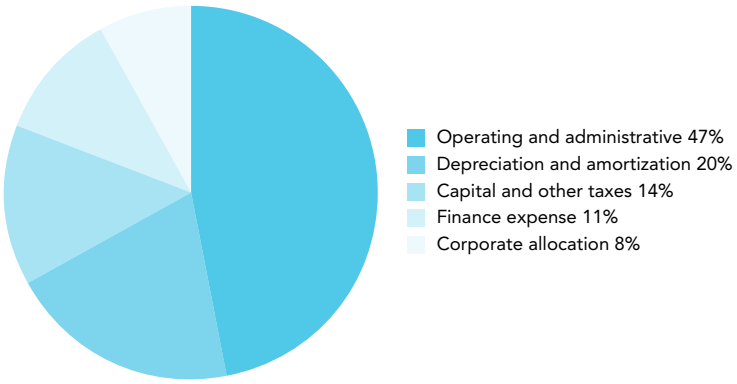
Natural gas prices have been declining since 2009 and while there have been price increases this year, the average bill is still low relative to 10 years ago. Manitoba Hydro's natural gas customers have benefited as a result. The total annual natural gas bill for a typical residential customer in Manitoba in 2013-14 was 17% lower than in 2004.

The PUB approved a general rate increase related to the non-gas costs of operating Centra of approximately 1% effective August 1, 2013. This was the first gas general rate increase implemented by Centra since May 1, 2010.

Natural Gas Expenses

Expenses attributable to the natural gas operations, excluding cost of gas sold amounted to $143 million in 2013-14, which was $4 million higher than the previous year primarily due to an increase of $3 million in operating and administrative expenses relating to pension and other benefits. In addition, there were increases of $2 million in capital and other taxes and $1 million in depreciation and amortization partially offset by a decrease of $2 million in finance expense.

Natural Gas Expenses
For the year ended March 31, 2014



Natural Gas Expenses

For the year ended March 31

	2014	2013	% change
	millions of dollars		
Operating and administrative	67	64	4.7
Finance expense	16	18	(11.1)
Depreciation and amortization	28	27	3.7
Capital and other taxes	20	18	11.1
Corporate allocation	12	12	-
	143	139	2.9

Centra purchased 886 million cubic metres of natural gas based on monthly Alberta indexed pricing, 187 million cubic metres under daily Alberta indexed pricing and 239 million cubic meters from a number of other supply sources. Centra also delivered natural gas on behalf of brokers to 15 703 (2013 – 17 418) customers receiving natural gas under Direct Purchase arrangements.

Centra offers a fixed rate service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers. At March 31, 2014 there were 305 customers (2013 – 396 customers) on Centra's fixed rate service. Total natural gas deliveries under this service were 6.0 million cubic metres (2013 – 6.0 million cubic metres).

Natural Gas Capital Expenditures

Capital expenditures in the natural gas sector were $35 million in 2013-14 compared to $34 million in the previous fiscal year. The capital expenditure program relates to new business, system improvement and other expenditures to meet the needs of the natural gas customers.

SUBSIDIARIES

In addition to Centra, Manitoba Hydro has the following wholly-owned subsidiaries involved in energy-related business enterprises:

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro, Centra and other utilities.

The following table provides a summary of the financial results of the subsidiary companies excluding Centra for the fiscal year ended March 31, 2014 compared to the previous fiscal year:

	MHI		MHUS		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	millions of dollars							
Revenues	51.1	43.2	4.9	4.6	0.3	1.1	56.3	48.9
Expenses	43.2	38.2	4.9	4.6	0.3	0.2	48.4	43.0
Net income	7.9	5.0	-	-	-	0.9	7.9	5.9

WUSKWATIM POWER LIMITED PARTNERSHIP

The WPLP was formed to carry on the business of developing, owning and operating the Wuskwatim Generating Station and related works, excluding the transmission facilities but including all dams, dikes, channels, excavations and roads. The WPLP has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation, which is owned beneficially by Nisichawayasihk Cree Nation, and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro. The Wuskwatim Generating Station is located at Taskinigahp Falls on the Burntwood River approximately 45 kilometres southwest of Thompson, Manitoba.

The WPLP reported a net loss for 2013-14 of $67 million which is consistent with the expectations for the first full year of operations. This is compared to a net loss of $40 million in 2012-13 for a partial year of operations. The net loss was mainly attributable to an increase in expenses of $49 million partially offset by an increase in revenues of $22 million resulting from the Wuskwatim generation and transmission facilities being in-service for the entire year of 2013-14 versus partial in-service in 2012-13. Manitoba Hydro's 67% share of the loss was $45 million (2013 - $27 million) and TPC's 33% share of the loss was $22 million (2013 - $13 million). At March 31, 2014 total assets for Wuskwatim generation and transmission facilities amounted to $1.6 billion (2013 – $1.6 billion).

CORPORATE PRIORITIES

The Manitoba demand for electricity is continuing to grow and new energy sources are required. To meet this increased demand, Manitoba Hydro's plan continues to include aggressively pursuing demand side options and developing clean, renewable hydro resources.

Natural gas also plays a significant role in meeting Manitoba's energy needs. During the next few years, Manitoba Hydro will be devoting a significant amount of effort in response to major changes in the North American supply and transportation markets.

Manitoba Hydro's top priorities include:

Safety in the workplace

Promoting safety in the workplace and in the actions of the public around our facilities remains Manitoba Hydro's top priority. Manitoba Hydro is committed to continuously improving its safety performance and focusing on strategies to instill a safety and health culture in all corporate activities. In doing so, Manitoba Hydro intends to maintain a steady decline in both workplace accident severity and frequency rates.

Customer value

Providing excellent customer service, high system reliability and affordable rates are fundamental in everything the corporation does. Manitoba Hydro is a leader in promoting conservation, providing numerous Power Smart Programs to assist customers in meeting their energy needs.

Financial strength

Maintaining financial strength is essential in order to make the necessary investments in infrastructure to continue to provide safe and reliable service to customers, financially withstand the risks and uncertainties that are inherent in Manitoba Hydro's operations and to provide customers with long-term rate stability and predictability.

Aboriginal relations

Engaging impacted Aboriginal communities in a positive way is vital to enhance working relationships. The corporation continues to place emphasis on addressing the adverse effects of our operations, fostering an appreciation of Aboriginal culture, developing and maintaining business relationships, providing opportunities in future development projects and implementing initiatives to recruit, develop and retain Aboriginal employees.

Workforce management

Attracting, developing and retaining a highly skilled and motivated workforce that reflects the demographics of Manitoba is critical to the corporation's success.

Protecting the environment

Protecting the environment is an integral part of everything Manitoba Hydro does which is accomplished by integrating environmentally responsible practices in all aspects of the business. Environmental protection is carried out with dedication to monitoring programs, climate change initiatives, and environmental research and development.

Demand side management (DSM)

As the province's population and economy continues to grow, DSM plays a key role in meeting Manitoba's future energy needs in a sustainable manner. These efforts assist customers in using energy more efficiently and result in overall lower energy bills.

REPORT ON PERFORMANCE

The report on performance summarizes progress the corporation is making towards top priorities in achieving operational excellence.

Priorities	Measure	Target / Challenge	2014 Performance
Safety in the workplace	Accident severity rate (days per 200 000 hours worked)	<12	11.1
	Accident frequency rate (accidents per 200 000 hours worked)	<0.6	0.7
	High-risk accidents	0	0
Customer value	System average interruption duration (minutes per year)	<116	106.5
	System average interruption frequency (outages per year)	<1.4	1.26
	Customer satisfaction	>8.4/10 customer satisfaction	7.87
Financial strength	Debt:equity ratio	75:25	76:24
	Interest coverage	>1.20	1.28
	Capital coverage	>1.20	1.35
Workforce management	Women	26%	24.5%
	Aboriginal – corporate	16%	17.6%
	Aboriginal – northern	45%	44.1%
	Persons with disabilities	6%	9.9%
	Visible minorities	7%	7.8%
Protecting the environment	Percentage of electricity generated in Manitoba from renewable resources	≥99%	99.6%
	Total annual GHG emissions	≤520 kt	163 kt
	Repeat environmental audit findings	0 repeat findings	0
Demand side management	Electric energy saved - GWh annual incremental savings	174 GWh	308 GWh
	Electric capacity saved - MW annual incremental savings	201 MW	278 MW
	Natural gas energy saved - in millions of cubic metres saved annually	10 million cubic metres	8.5 million cubic metres

RISK MANAGEMENT

Manitoba Hydro faces a number of risks in the fulfillment of its mission and mandate. These risks are managed through a systematic, proactive and integrated process which is designed to balance the objectives of:

- identifying threats that affect the achievement of the corporation's mission and mandate;
- mitigating the consequences of negative occurrences; and
- taking advantage of opportunities to provide benefits to all stakeholders.

Most risk management efforts are focused on reducing the occurrence of negative events. However, the corporation also has plans in place to reduce the impacts should a negative event occur. These plans are under continual assessment. In addition, all safety and reliability risks are managed through strict adherence to design, construction and operating standards and practices together with extensive public education and employee training programs. A comprehensive Emergency Response Program is also in place to ensure an effective and coordinated response to possible emergencies or natural disasters.

The financial and operational risks associated with the management of an integrated electricity and natural gas utility are significant. These risks include the impacts of new infrastructure development, aging infrastructure maintenance and replacement, weather on supply and demand, price and market uncertainties, interest, inflation and foreign exchange rates, skilled labour availability and costs, increasing regulatory, environmental and legal requirements and accelerated technological change. Manitoba Hydro manages these risks through an integrated control framework and through the maintenance of an adequate level of retained earnings.

Manitoba Hydro's most significant risks are quantified in the following table:

Risk	Potential Financial Impact
Infrastructure	Greater than $2.0 billion
Drought	Greater than $1.6 billion for a five year drought
Loss of export market	Greater than 30% of electricity revenue
Interest rates	Approximately $900 million for a 1% change over 10 years

STATUS OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2013, the Canadian Accounting Standards Board (AcSB) announced an additional optional one-year deferral of IFRS for qualifying entities with rate-regulated activities with year-ends beginning after January 1, 2015. Manitoba Hydro meets the AcSB criteria for deferral and intends to adopt IFRS for its 2015-16 fiscal year with comparative information presented for the 2014-15 fiscal year.

The corporation expects the transition to IFRS to impact accounting, financial reporting and related information systems. Reporting of the conversion status is provided to the Audit Committee of the Manitoba Hydro-Electric Board.

Although IFRS and Canadian Generally Accepted Accounting Principles (GAAP) are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact Manitoba Hydro include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

On January 30, 2014, the International Accounting Standards Board (IASB) approved a new interim standard IFRS 14, Regulatory Deferral Accounts which is effective January 1, 2016 with earlier adoption permitted. The new standard applies only to entities that are first-time adopters of IFRS, conduct rate-regulated activities and recognize regulatory deferral account balances in their financial statements in accordance with their previous GAAP. Manitoba Hydro's operations fall within the scope of the new interim standard and it will early adopt IFRS 14 upon its transition to IFRS effective April 1, 2015.

In adopting the new interim standard IFRS 14, Manitoba Hydro will:

- continue to use its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances;
- present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as a separate line item in the statement of profit or loss and other comprehensive income; and
- provide specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances.

Notably, the new interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on Rate-regulated Activities. It is expected that the comprehensive project may take several years to complete.

At this time, it is uncertain as to the final position the IASB will take as part of its Rate-regulated Activities project. In addition, the IASB has a number of ongoing projects on its agenda which may result in changes to existing IFRS prior to the commencement of Manitoba Hydro's 2015-16 fiscal year. Manitoba Hydro continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

OUTLOOK

Manitoba Hydro entered fiscal 2014-15 with above average water storage levels and expectations for the spring runoff for 2014 are above average. However, Manitoba Hydro expects its net income for 2014-15 to be significantly below the level experienced in 2013-14. This results from lower forecast revenue assuming normal winter weather conditions and higher forecast depreciation and finance expense due to continued investment in property, plant and equipment.

Manitoba Hydro has commenced construction of the Bipole III transmission line and is actively planning a number of major projects such as Keeyask and Conawapa generating stations in order to further improve electrical system reliability, to meet the future energy needs of the province and to take advantage of export opportunities. These plans will involve the investment of approximately $20 billion which will generate significant returns for Manitobans over ensuing decades. Construction of the new generating stations will only proceed once firm export sales contracts are secured, extensive consultations with stakeholders and First Nations are concluded and environmental and regulatory approvals are received.

The Bipole III project involves the construction of a new 500-kV high voltage direct current transmission line along with new converter stations, one in the north and another at the southern receiving end. The project is required to improve system reliability and will also provide additional capacity for delivery of existing and proposed hydro-electric generation to southern markets. The Manitoba Environment Act license for Bipole III was issued in August 2013 following the Manitoba Clean Environment Commission (CEC) public hearing and report. Construction has started on the Keewatinoow (northern) converter station, construction power station and line as well as the clearing of the right-of-way for northern segments of the 500-kV transmission line.

In accordance with Manitoba Order in Council No. 128/2013, a Needs For and Alternatives To review is being undertaken by the PUB of the economic and societal justification for Manitoba Hydro's proposed development plan including Keeyask, Conawapa, a new Manitoba to U.S. transmission interconnection and new long-term export sales. Public hearings commenced March 2014 and are expected to conclude in May with a report to be submitted to the Minister responsible for the Public Utilities Board Act by June 2014.

The 695-megawatt Keeyask Generating Station would be built on the Nelson River, 30 kilometres west of Gillam, within the Split Lake Resource Management Area, in partnership with four Keeyask Cree Nations (KCN) – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation. A Keeyask Infrastructure Agreement was negotiated between Manitoba Hydro and KCN enabling an early start to the construction of the access road to the site and the construction camp. The CEC hearings to review the Keeyask Generating Station project's environmental impact statement concluded in January 2014. The Minister of Conservation and Water Stewardship released the report on the Keeyask Generation Project in May 2014 recommending that the project be issued a license under the Manitoba Environment Act. Pending regulatory approvals, construction is scheduled to start in the summer of 2014 with an in-service date of 2019.

The proposed 1 485-megawatt Conawapa Generating Station would be built approximately 90 kilometres downstream of Gillam and 28 kilometres downstream of the Limestone Generating Station, in the Fox Lake Resource Management Area on the Lower Nelson River. A formal planning process is underway with the communities in the vicinity of the project, including Fox Lake Cree Nation, York Factory First Nation, Tataskweyak Cree Nation, War Lake First Nation and Shamattawa First Nation. Activities are progressing to

complete the Project Description, preliminary engineering and the environmental assessment. Discussions on Aboriginal participation are taking place with Fox Lake Cree Nation and are expected to begin with the rest of the in-vicinity communities during fiscal 2015. The Environmental Impact Statement is scheduled to be filed by the end of 2015 with the potential start of construction in January 2018, which would support an earliest in-service date of 2026.

Manitoba Hydro's highly successful Power Smart Program continues to encourage residential, commercial and industrial customers to use energy more efficiently through 30 programs and initiatives. These efforts work towards making permanent shifts in the Manitoba marketplace for long-term adoption of energy efficient technologies and practices. The Program forecasts higher energy savings through expanding on the existing portfolio with a more aggressive approach to delivering existing programs and by pursuing additional emerging opportunities. The Program is projected to achieve electric energy and demand savings of 6 286 GWh and 1 635 MW per year and natural gas savings of 211 million cubic metres per year by 2028-29. These energy savings are expected to reduce greenhouse gas emissions by over 4.6 million tonnes annually while providing Manitobans with lower energy bills from the installation of energy savings measures and the continued sale of the conserved energy on export markets. The reduced energy consumption forecast in the plan represents 12.7% of the estimated electric load forecast offsetting 66% of projected load growth during this period and 5.3% of the estimated natural gas volume forecast by 2028-29, further reducing natural gas consumption in Manitoba.

Refurbishing a manhole in downtown Winnipeg.

MANAGEMENT REPORT

For the year ended March 31, 2014

The accompanying consolidated financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 25, 2014. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The internal and external auditors have full and unrestricted access to the Audit Committee, with or without the presence of management. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:

Scott A. Thomson, CA
President and Chief Executive Officer

Darren B. Rainkie, CA, CBV
Vice-President, Finance and Regulatory

Winnipeg, Canada
June 25, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of **Manitoba Hydro-Electric Board**, which comprise the consolidated balance sheet as at March 31, 2014 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Hydro-Electric Board as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada,
June 25, 2014

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

		Notes	2014	2013
				millions of dollars
Revenues				
Electric	Manitoba		1 405	1 341
	Extraprovincial	4	439	353
	Other revenue	8	70	69
Gas	Commodity		252	182
	Distribution		163	147
			2 329	2 092
Cost of gas sold			252	182
			2 077	1 910
Expenses				
Operating and administrative			557	533
Finance expense		5	471	489
Depreciation and amortization		6	442	423
Water rentals and assessments		7	125	118
Fuel and power purchased			177	133
Capital and other taxes			117	105
Other expenses		8	36	30
			1 925	1 831
Net income before non-controlling interest			152	79
Net loss attributable to non-controlling interest		25	22	13
Net Income			174	92

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2014	2013
		millions of dollars
Retained earnings, beginning of year	2 542	2 450
Net income	174	92
Retained earnings, end of year	2 716	2 542

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at March 31

	Notes	2014	2013
			millions of dollars
Assets			
Property, Plant and Equipment			
In service	9	16 190	15 793
Less accumulated depreciation	9	5 506	5 252
		10 684	10 541
Construction in progress	9	2 943	1 967
		13 627	12 508
Current Assets			
Cash and cash equivalents		142	32
Accounts receivable and accrued revenue		520	421
Interest receivable		-	4
Materials and supplies, at average cost	10	81	93
		743	550
Other Assets			
Sinking fund investments	11	111	352
Goodwill and intangible assets	12	281	276
Regulated assets	13	360	306
Other long-term assets	14	517	550
		1 269	1 484
		15 639	14 542

Approved on behalf of the Board:

William C. Fraser, FCA
Chair of the Board

James Husiak, CA
Chair of the Audit Committee

	Notes	2014	2013
			millions of dollars
Liabilities and Equity			
Long-Term Debt			
Long-term debt net of sinking fund investments		10 349	8 977
Sinking fund investments shown as assets	11	111	352
	15	10 460	9 329
Current Liabilities			
Accounts payable and accrued liabilities		561	397
Accrued interest		100	103
Current portion of long-term debt	15	408	656
		1 069	1 156
Other Liabilities			
Asset purchase obligation	16	207	207
Regulated liabilities	13	22	24
Other long-term liabilities	17	615	550
		844	781
Contributions in Aid of Construction	18	381	340
Equity			
Retained earnings		2 716	2 542
Accumulated other comprehensive income		96	299
		2 812	2 841
Non-controlling interest	25	73	95
		2 885	2 936
		15 639	14 542

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31

	2014	2013
		millions of dollars
Operating Activities		
Cash receipts from customers	2 198	2 015
Cash paid to suppliers and employees	(1 070)	(981)
Interest paid	(510)	(489)
Interest received	72	44
Cash provided by operating activities	690	589
Financing Activities		
Proceeds from long-term debt	1 320	807
Sinking fund withdrawals	415	129
Retirement of long-term debt	(613)	(242)
Other	(21)	(59)
Cash provided by financing activities	1 101	635
Investing Activities		
Property, plant and equipment, net of contributions	(1 383)	(1 037)
Sinking fund payments and deposits	(209)	(107)
Other	(89)	(98)
Cash used for investing activities	(1 681)	(1 242)
Net increase (decrease) in cash and cash equivalents	110	(18)
Cash and cash equivalents, beginning of year	32	50
Cash and cash equivalents, end of year	142	32

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31

	2014	2013
		millions of dollars
Net Income	174	92
Other Comprehensive Loss		
Unrealized foreign exchange losses on debt in cash flow hedges	(155)	(31)
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	(19)	2
Realized gains on early redemption of sinking funds recognized in net income	(19)	-
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	(10)	1
	(203)	(28)
Comprehensive Income (Loss)	(29)	64

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

For the year ended March 31

	2014	2013
		millions of dollars
Accumulated other comprehensive income, beginning of year	299	327
Other comprehensive loss	(203)	(28)
Accumulated other comprehensive income, end of year	96	299

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2014

NOTE 1 NATURE OF THE ORGANIZATION

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown Corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - These consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as set forth in Part V of the Chartered Professional Accountants (CPA) Canada Handbook – Accounting - Pre-Changeover Accounting Standards and include the significant accounting policies described hereafter.

Consolidation - These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd., Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary which was formed to participate in the development of a new transmission interconnection to the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the Wuskwatim Power Limited Partnership (WPLP) and its 75% ownership in the Keeyask Hydropower Limited Partnership. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate-Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. As permitted under Canadian GAAP, the corporation applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of Canadian GAAP. FASB Accounting Standards Codification Section 980 – Regulated Operations, represents the standard Manitoba Hydro applies for rate-regulated accounting. These accounting policies differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise have been included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets or regulated liabilities (Note 13) which are generally comprised of the following:

- Power Smart programs - The costs of the corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.

- Site restoration costs - Site restoration costs, other than those for which an asset retirement obligation has been established, are deferred and amortized on a straight-line basis over a period of 15 years.

- Deferred taxes - Taxes paid by Centra (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Acquisition costs - Costs associated with the acquisition of Centra (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to 5 years.

- Purchased gas variance accounts - Accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is recovered or refunded in future rates.

- Demand side management (DSM) deferral - In Board Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas DSM for the 2012-13 and 2013-14 fiscal years be recorded in a regulatory deferral account. The cumulative differences for 2012-13 and 2013-14 have been recorded as a regulated liability with an offsetting balance recorded as a regulated asset. The disposition of this regulatory deferral will be determined at a future PUB proceeding.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**

Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases and depreciation and interest charged to operations commences.

b) **Depreciation**

Depreciation is provided on a straight-line remaining-life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	-	Hydraulic	20 - 125 years
	-	Thermal	5 - 65 years
Transmission lines			10 - 85 years
Substations			15 - 65 years
Distribution			10 - 75 years
Other			5 - 100 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the corporation.

c) **Asset Retirement Obligations**

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the estimated retirement cost is added to the carrying amount of the related asset. In subsequent periods, the estimated retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Materials and Supplies**

Materials and supplies are valued at the lower of average cost or net realizable value.

e) **Contributions in Aid of Construction**

Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

f) **Revenues**

Manitoba electricity and gas sales are recognized upon delivery to the customer and include an estimate of energy deliveries not yet billed at year-end.

Extraprovincial revenues are recorded upon the delivery of energy.

Other revenue is recorded on the delivery of the related good or service, over the term of the contract for maintenance and lease contracts or on a percentage of completion basis for fixed price contracts.

g) **Cost of Gas Sold**

Cost of natural gas sold is recorded at the same rates charged to customers.

h) **Employee Future Benefits**

Manitoba Hydro provides future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, the Enhanced Hydro Benefit Plan (EHBP), three Centra curtailed pension plans and the Winnipeg Civic Employee Benefits Program (WCEBP). MHUS is a matching employer under the Civil Service Superannuation Act and MHI sponsors a defined contribution group registered retirement plan.

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives, inflation rates and expected rate of return on plan assets. Pension expense is comprised of the cost of pension benefits provided during the

year, the amortization of past service benefits, experience gains and losses and expected returns on fund assets net of interest on the obligation. The amount of expected returns on fund assets is based on market related values using a five-year moving average. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the consolidated financial statements as assets or liabilities.

The corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the WCEBP, which maintains the funds and obligations relating to these employees in its financial records.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the future costs of these benefits are based on management's best estimates.

i) **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (OCI). OCI includes unrealized gains and losses arising from changes in the fair value of available-for-sale assets and changes in the foreign exchange rate for U.S. denominated long-term debt and interest payments in effective cash flow hedging relationships. Such amounts are recorded in accumulated OCI (AOCI) until the criteria for recognition in net income are met.

j) **Financial Instruments**

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recorded in OCI until the instrument is derecognized or impaired. Translation gains and losses on available-for-sale financial assets in a hedging relationship with financial liabilities are credited or charged to finance expense. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.

k) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates.

Long-term monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing as at the consolidated balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

l) **Derivatives**

The corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated balance sheet with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in net income.

m) **Hedges**

The corporation has designated cash flow and fair value hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. A fair value hedge relationship has also been established between U.S. long-term debt balances and U.S. sinking fund investments. The corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

n) **Debt Discounts and Premiums**

Debt discounts and premiums are amortized to finance expense using the effective interest method.

o) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

p) **Goodwill and Intangible Assets**

Goodwill represents the amount of the corporation's investments in Centra and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the corporation's investments in Centra or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.

Intangible assets include computer software, application development costs, land easements and

transmission rights. Intangible assets are recorded at cost. The cost of computer software and application development includes software, direct labour, materials, contracted services, a proportionate share of overhead costs and interest during development applied at the average cost of debt. Intangible assets with finite useful lives are amortized over their useful lives on a straight-line basis. The expected useful lives are as follows:

Computer software and application development	5 – 10 years
Land easements	75 years
Transmission rights	1 – 12 years

The estimated service lives of intangible assets are based upon depreciation studies conducted periodically by the corporation. The transmission rights are amortized over the contractual period plus a one-term renewal.

q) **Non-Controlling Interest**

Non-controlling interest represents the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interest within the equity section of the consolidated balance sheet. The portion of the net income or net loss not attributed to the corporation is recorded as a non-controlling interest in the consolidated statement of income.

r) **Use of Estimates**

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 3 ACCOUNTING CHANGES

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) announced that publicly accountable enterprises would be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that government business enterprises such as Manitoba Hydro would be required to follow IFRS for periods beginning January 1, 2011.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact Manitoba Hydro include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

In May 2010, the International Accounting Standards Board (IASB) issued the omnibus Improvements to IFRS,

which includes an amendment to IFRS 1 for entities with rate-regulated activities. The amendment applies to first-time adopters by offering an optional exemption to use the carrying amount of property, plant and equipment and intangible assets as deemed cost of those assets on the transition date. This exemption eliminates the requirement to retrospectively adjust opening property, plant and equipment and/or intangible asset balances for costs that would otherwise not qualify for capitalization under IFRS. Manitoba Hydro intends to apply this exemption.

In September 2010, the AcSB implemented changes to Part I of the CPA Canada Handbook – International Financial Reporting Standards allowing qualifying entities with rate-regulated activities to be permitted, but not required, to defer their adoption of IFRS for one year. In March 2012, September 2012 and February 2013, the AcSB announced additional optional one-year deferrals of IFRS for qualifying entities with rate-regulated activities. Manitoba Hydro meets the AcSB criteria for deferral and intends to adopt IFRS for its 2015-16 fiscal year with comparative information presented for the 2014-15 fiscal year.

On January 30, 2014, the IASB issued the interim standard IFRS 14 *Regulatory Deferral Accounts* for rate-regulated activities effective January 1, 2016 with earlier adoption permitted. Manitoba Hydro will early adopt the interim standard upon transition to IFRS effective April 1, 2015 and will continue to recognize regulatory deferral accounts for its financial reporting.

At this time, it is uncertain as to the final position the IASB will take as part of its Rate-Regulated Activities project. In addition, the IASB has a number of on-going projects on its agenda which may result in modifications to existing IFRS prior to the commencement of Manitoba Hydro's 2015-16 fiscal year. Manitoba Hydro continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

NOTE 4 EXTRAPROVINCIAL REVENUES

U.S. extraprovincial revenues were translated into Canadian dollars at exchange rates in effect at the date of the transaction. The average effective exchange rate for the year was $1.00 U.S. = $1.05 Canadian (2013 - $1.00 U.S. = $1.00 Canadian).

	2014	2013
	millions of dollars	
United States	392	312
Canada	47	41
	439	353

NOTE 5 FINANCE EXPENSE

	2014	2013
	millions of dollars	
Interest on debt	654	636
Interest capitalized	(142)	(141)
Investment income	(24)	(11)
Realized foreign exchange (gains) losses on debt in cash flow hedges	(19)	2
Realized losses on revaluation of dual currency bonds	2	3
	471	489

Included in interest on debt is $99 million (2013 - $93 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province of Manitoba (2013 - 1.0%).

NOTE 6 DEPRECIATION AND AMORTIZATION

	2014	2013
	millions of dollars	
Depreciation of property, plant and equipment	375	359
Amortization of regulated assets	45	42
Amortization of intangible assets	22	22
	442	423

NOTE 7 WATER RENTALS AND ASSESSMENTS

	2014	2013
	millions of dollars	
Water rentals	118	111
Assessments	7	7
	125	118

Water rentals are paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydro-electric generating stations. Water rental rates during the year were $3.34 per MWh (2013 - $3.34 per MWh).

Notes to the Consolidated Financial Statements

For the year ended March 31, 2014

NOTE 8 OTHER REVENUE AND OTHER EXPENSES

	2014	2013
	millions of dollars	
Other revenue		
Services provided to external entities	52	45
Miscellaneous revenue	18	24
	70	69
Other expenses		
Cost of services provided to external entities	32	30
Write-off of property, plant and equipment under construction	4	-
	36	30

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	2014			2013		
	millions of dollars					
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
Generation						
Hydraulic	6 772	1 825	1 788	6 645	1 739	1 222
Thermal	479	290	17	480	277	11
Transmission lines	1 036	319	249	1 024	311	127
Substations	3 055	1 407	731	2 977	1 337	489
Distribution	3 634	1 287	114	3 471	1 242	95
Other	1 214	378	44	1 196	346	23
	16 190	5 506	2 943	15 793	5 252	1 967

NOTE 10 MATERIALS AND SUPPLIES

	2014	2013
	millions of dollars	
Materials and supplies	81	72
Natural gas inventory	-	21
	81	93

NOTE 11 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31 and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year

were $209 million (2013 - $107 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2014	2013
		millions of dollars
U.S. investments	111	272
Canadian investments	-	58
Premium on purchase of sinking fund investments	-	22
	111	352

U.S. investments have a weighted average term to maturity of 10 days (2013 - 4.0 years) and an effective yield to maturity of 0.1% (2013 – 3.7%). U.S. investments are translated into Canadian dollars at the exchange rate prevailing as at the consolidated balance sheet date, $1.00 U.S. = $1.11 Canadian (2013 - $1.00 U.S. = $1.02 Canadian). The March 31, 2014 balance includes nil (2013 - $29 million) of unrealized fair value gains. Canadian investments have a weighted average term to maturity of 1 day (2013 - 1 day) and an effective yield to maturity of 1.0% (2013 - 1.1%).

NOTE 12 GOODWILL AND INTANGIBLE ASSETS

	2014			2013		
				millions of dollars		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Intangible assets						
Computer software and application development	222	120	102	210	105	105
Land easements	80	14	66	72	13	59
Transmission rights	8	3	5	5	1	4
	310	137	173	287	119	168
Goodwill	108	-	108	108	-	108
	418	137	281	395	119	276

The additions to intangible assets for the year totaled $30 million (2013 - $31 million). In total, intangible assets of $24 million (2013 - $23 million) were amortized to operations during the year.

NOTE 13 REGULATED ASSETS AND REGULATED LIABILITIES

	2014	2013
	millions of dollars	
Regulated assets		
Power Smart programs - electric	184	172
- gas	54	47
Purchased gas variance accounts	39	-
Site restoration costs	36	35
Deferred taxes	27	29
Acquisition costs	19	20
Regulatory costs	1	3
	360	306
Regulated liabilities		
DSM deferral	22	-
Purchased gas variance accounts	-	24
	22	24

If the corporation was not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2014 would have been increased by $7 million (2013 – increased by $4 million).

In total, regulated assets of $49 million (2013 - $46 million) were amortized to operations during the year.

The corporation passes all costs related to the purchase and transportation of natural gas on to its customers without markup. If the corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. If actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have decreased by $63 million (2013 - decreased by $6 million).

NOTE 14 OTHER LONG-TERM ASSETS

	2014	2013
	millions of dollars	
Advances to St. Joseph Windfarm Inc. (excluding current portion)	218	227
Advances to Taskinigahp Power Corporation (Note 25)	112	105
Accrued benefit asset (Note 21)	90	122
Contract receivables	86	81
Affordable Energy Fund (Note 24)	11	15
	517	550

The St. Joseph wind farm is owned by Pattern Energy and operated by St. Joseph Windfarm Inc. Financing for the wind farm was provided partly by Manitoba Hydro. In accordance with the loan agreement, Manitoba Hydro provided advances of $250 million, which will be repaid with interest over 20 years. In addition, Manitoba Hydro has provided access to a $10 million reserve loan facility. The corporation signed a 27-year power purchase agreement with St. Joseph Windfarm Inc. in March 2010.

NOTE 15 LONG-TERM DEBT

	2014	2013
	millions of dollars	
Advances from the Province of Manitoba represented by debenture debt of the Province	10 683	9 775
Manitoba HydroBonds	169	55
Manitoba Hydro-Electric Board Bonds	158	182
	11 010	10 012
Less: Current portion of long-term debt	408	656
	10 602	9 356
Adjustment to carrying value of dual currency bonds	(12)	(20)
Debt discounts and premiums	(96)	22
Transaction costs	(34)	(29)
	10 460	9 329

During the year, the corporation arranged long-term financing of $1 320 million (2013 - $807 million). The current year financing was in the form of Provincial Advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $259 million (2013 - $617 million) of debt maturities and $149 million (2013 - $39 million) of floating-rate Manitoba HydroBonds with maturity dates in 2016 and 2018. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $65 million (2013 - $73 million) issued for mitigation projects.

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

					2014	2013
	millions of Canadian dollars					
Years of Maturity	Canadian	Cdn. Yields	U.S.	U.S. Yields	Total	Total
2015	298	2.6%	110	2.7%	408	210
2016	313	4.3%	-	-	313	313
2017	311	3.4%	-	-	311	308
2018	331	6.8%	-	-	331	331
2019	905	5.6%	442	10.0%	1 347	1 319
	2 158	5.0%	552	10.0%	2 710	2 481
2020-2024	1 125	3.6%	1 326	6.5%	2 451	2 044
2025-2029	510	6.1%	-	-	510	510
2030-2034	990	8.8%	-	-	990	989
2035-2039	1 425	4.9%	-	-	1 425	1 425
2040-2044	1 600	4.4%	-	-	1 600	1 350
2045-2063	1 324	4.1%	-	-	1 324	557
	9 132	4.9%	1 878	7.1%	11 010	9 356

Included in the above Canadian maturity amounts is one dual currency bond with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. The dual currency bond matures in the 2025-26 fiscal year in the amount of $130 million Canadian.

U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date, $1.00 U.S. = $1.11 Canadian (2013 - $1.00 U.S. = $1.02 Canadian).

NOTE 16 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The asset purchase obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

NOTE 17 OTHER LONG-TERM LIABILITIES

	2014	2013
	millions of dollars	
Mitigation liability (Note 23)	229	235
Accrued benefit liability (Note 21)	188	174
Refundable advances from customers	102	96
Transmission community development initiatives	67	15
Asset retirement obligations	13	9
Affordable Energy Fund (Note 24)	11	15
Other	5	6
	615	550

The corporation recorded liabilities for the transmission community development initiatives for both the Wuskwatim transmission line and the Herblet Lake transmission line as outlined in the Wuskwatim Project Development Agreement of $16 million (2013 – $15 million) and for the Bipole III community development initiatives of $51 million (2013 – nil). These funds will be used for community development purposes by eligible First Nations and small or remote northern communities in the vicinity of the transmission lines.

Asset retirement obligations continue to be recognized for the future decommissioning of the Brandon Thermal Generating Station and for the partial decommissioning of the Pointe du Bois Generating Station spillway. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $21 million (2013 - $17 million), $15 million (2013 - $15 million) of which is expected to be incurred in 2024 to decommission the Brandon Thermal Generating Station and $6 million (2013 - $2 million) is expected to be incurred by March 2015 for the partial decommissioning of the Pointe du Bois Generating Station spillway. No funds are being set aside to settle the asset retirement obligations.

NOTE 18 CONTRIBUTIONS IN AID OF CONSTRUCTION

	2014	2013
	millions of dollars	
Contributions in aid of construction	362	340
Bipole III contribution	19	-
	381	340

Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

In Order 43/13, dated April 26, 2013, the PUB directed that 1.5% of the approved 3.5% rate increase effective May 1, 2013 be set aside to be utilized to mitigate the required rate increases when Bipole III is placed in-service. During the 2013-14 fiscal year $19 million was set aside for this purpose. The period over which this balance will be recognized into net income will be determined by the PUB at a future regulatory proceeding.

NOTE 19 FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the corporation's non-derivative financial instruments at March 31 were as follows:

	2014		2013	
Financial Instruments	Carrying value	Fair value	Carrying value	Fair value
		millions of dollars		
Held-for-trading				
Cash and cash equivalents	142	142	32	32
Loans and receivables				
Accounts receivable and accrued revenue	520	520	421	421
Interest receivable	-	-	4	4
Available-for-sale				
Sinking fund investments	111	111	352	352
Other financial liabilities				
Long-term debt (including current portion)	10 868	12 592	9 985	12 335
Accounts payable and accrued liabilities	561	561	397	397
Accrued interest	100	100	103	103
Asset purchase obligation	207	319	207	343

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial instrument measurements are Level 1 measurements with the exception of the long-term debt and the asset purchase obligation that are Level 2 measurements and certain derivative instruments of nominal value associated with wholesale power marketing activities that are Level 3 measurements. Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated balance sheet date for similar instruments available in the capital market. Level 3 measurements are based on internally developed valuation models which are consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

Financial Risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed and reviewed by the Manitoba Hydro-Electric Board to ensure the adequacy of the risk management framework in relation to the risks faced by the corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks has not changed significantly from the prior year.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, short-term investments and pension fund investments. The corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair value.

The value of the corporation's aged accounts receivable and related bad debt provisions are presented in the following table:

	Manitoba	Extraprovincial	2014 Total	2013 Total
		millions of dollars		
Under 30 days	370	41	411	342
31 to 60 days	25	-	25	25
61 to 90 days	9	-	9	8
Over 90 days	27	-	27	26
	431	41	472	401
Provision at end of year	(9)	-	(9)	(9)
Total accounts receivable	422	41	463	392

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

b) Liquidity Risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the consolidated balance sheet date:

	Carrying value	2015	2016	2017	2018	2019	2020 and thereafter
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	561	561	-	-	-	-	-
Asset purchase obligation	207	16	16	16	16	16	16*
Long-term debt**	10 968	1 067	977	975	994	1 942	15 725
		1 644	993	991	1 010	1 958	15 741
Derivative financial liabilities							
Commodity derivatives							
Fixed price swap contracts	-	-	-	-	-	-	-
		-	-	-	-	-	-
		1 644	993	991	1 010	1 958	15 741

*per year in perpetuity
**including current portion and interest payments

c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

i. Foreign Exchange Risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in other comprehensive income until future hedged U.S. export revenues are realized, at which time the associated gains or losses in accumulated other comprehensive income are recognized in net income. For the year ended March 31, 2014, unrealized foreign exchange translation losses of $155 million (2013 - $31 million losses) were recognized in other comprehensive income and $19 million net gains (2013 - $2 million losses) were reclassified from other comprehensive income into net income.

Manitoba Hydro also has a fair value hedging relationship between U.S. long-term debt balances and U.S. sinking fund investments. Offsetting foreign exchange translation gains and losses on these items are recognized in net income.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2014, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $0.6 million (2013 - $0.4 million), while other comprehensive income would increase (decrease) by $160 million (2013 - $177 million).

ii. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate long-term debt and fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March

31, 2014, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $15 million (2013 - $15 million), with no impact to other comprehensive income.

Interest rate swap agreements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the corporation are amended by the swap.

iii. Commodity Price Risk

The corporation is exposed to electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The corporation mitigates commodity price risk through its limited use of derivative financial instruments restricted to contracts for differences, forward power sales contracts and natural gas price swaps. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The corporation has entered into forward power sales contracts for 50 400 megawatt hours of electricity until June 2014 and natural gas price swaps until July 2016 to purchase 87 450 gigajoules of natural gas. These contracts are reported as derivatives and carried at fair value on the consolidated balance sheet. The unrealized fair value gains of financial derivative contracts as at March 31 are as follows:

	2014	2013
	millions of dollars	
Commodity derivative contracts	2	-

Fair values of forward sales contracts are calculated using the monthly forward electricity prices at pricing points specified in the contracts. Fair values of price swaps are calculated using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2014.

NOTE 20 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's long-term target is to achieve a minimum equity ratio of 25%. It is recognized that the equity ratio target may not be achieved during years of major investment in the generation and transmission system.

The corporation's equity ratio as at March 31 was as follows:

	2014	2013
	dollars are in millions	
Long-term debt, net of sinking fund investments	10 349	8 977
Current portion, long-term debt	408	656
Less: Cash and cash equivalents	(142)	(32)
Net debt	10 615	9 601
Retained earnings	2 716	2 542
Accumulated other comprehensive income	96	299
Contributions in aid of construction	381	340
Non-controlling interest	73	95
Total equity	3 266	3 276
Equity ratio	24%	25%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act* and *The Loan Act*. *The Manitoba Hydro Act* grants the corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under *The Loan Act* for the necessary borrowing authority for new capital requirements and the refinancing of any maturing long-term debt. The majority of Manitoba Hydro's long-term debt is obtained through advances by the Province of Manitoba.

NOTE 21 EMPLOYEE FUTURE BENEFITS

Manitoba Hydro employees are eligible for pension benefits under the CSSB defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. The CSSB plan requires the corporation to contribute approximately 50% of the pension disbursements made to retired employees. All current employees participating in the CSSB plan are eligible for enhanced pension benefits under the EHBP. The EHBP improves the pension formula used to calculate pension for active service accrued after June 1, 2006. In addition, the former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the WCEBP in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years.

The CSSB manages the corporation's pension funds (MH Pension Fund and EHBP) on behalf of the corporation. The assets related to the Centra curtailed pension plans are held in trust by State Street Trust Co. of Canada. The assets and liabilities of the WCEBP are not reflected on Manitoba Hydro's consolidated balance sheet.

MHUS employees are eligible for pension benefits under the CSSB defined benefit plan. As a matching employer under the Civil Service Superannuation Act, MHUS is required to match employee contributions at a prescribed rate into the Civil Service Superannuation Fund (CSSF) pool of assets. MHUS' pension expense is

recognized at the time contributions are made to the fund. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to the MHUS defined benefit plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

The following table presents information pertaining to the MH Pension Fund, the EHBP and the Centra curtailed pension plans:

	MH Pension Fund		Enhanced Hydro Benefit Plan		Centra curtailed plans		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	millions of dollars							
Plan assets at fair value								
Balance at beginning of year	792	758	14	11	97	84	903	853
Actual return on plan assets	108	52	1	1	13	6	122	59
Employer contributions	30	26	2	2	10	12	42	40
Benefit payments and refunds	(47)	(44)	-	-	(5)	(5)	(52)	(49)
	883	792	17	14	115	97	1 015	903
Accrued benefit obligation								
Balance at beginning of year	1 232	1 012	20	11	113	98	1 365	1 121
Interest on obligation	52	53	1	1	5	5	58	59
Current service cost	45	35	2	2	-	-	47	37
Benefit payments and refunds	(47)	(45)	-	-	(5)	(5)	(52)	(50)
Actuarial (gains) losses	(17)	177	(1)	6	(2)	15	(20)	198
	1 265	1 232	22	20	111	113	1 398	1 365
Surplus (deficit) at end of year	(382)	(440)	(5)	(6)	4	(16)	(383)	(462)
Unamortized past service costs	-	-	-	-	-	1	-	1
Unamortized transitional balance	-	(1)	-	-	-	-	-	(1)
Unamortized net actuarial loss	424	521	4	6	45	57	473	584
Accrued benefit asset (obligation)	42	80	(1)	-	49	42	90	122

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund fair value		Centra curtailed pension plans fair value	
	2014	2013	2014	2013
	millions of dollars			
Equities	578	492	75	63
Bonds and debentures	174	185	23	23
Real estate	87	89	11	8
Infrastructure	24	22	3	3
Short-term investments	20	4	3	-
	883	792	115	97

Manitoba Hydro has $18 million (2013 - $14 million) on deposit with the CSSB for the EHBP. Manitoba Hydro does not have a separate portfolio of assets for the EHBP. The investment income earned on the EHBP funds is based on the market value rate of return that is earned by the CSSF. For the year ended December 31, 2013, the CSSF earned a rate of return of 14.7% (2013 – 10.2%) on fund assets.

The return on pension fund assets for the MH Pension Fund was 13.8% (2013 – 7.5%). The return for the Centra curtailed plan fund assets was 13.8% (2013 – 7.3%). The weighted average term to maturity on fixed income investments is 9.3 years (2013 – 8.9 years).

The most recent actuarial valuations for the corporation's obligations under the CSSB and Centra curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2013. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans, including the EHBP will occur in December 2014. The Centra curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2013.

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2014	2013
Discount rate - pensions	4.50%	4.25%
Discount rate - other benefits	4.50%	4.25%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees - MH Pensions	13 years	14 years
Expected average remaining service life of employees - Centra Pensions	10 years	10 years
Long-term inflation rate	2.0%	2.0%

The corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB Plan		Enhanced Hydro Benefit Plan		Centra curtailed pension plans	
	2014	2013	2014	2013	2014	2013
	millions of dollars					
Current service cost	45	35	2	2	-	-
Administrative fees	3	2	-	-	-	-
Canada Pension Plan	16	15	-	-	-	-
Interest on obligation	52	53	1	1	5	5
Expected return on plan assets	(59)	(58)	(1)	(1)	(7)	(7)
Amortization of net experience loss	28	13	-	-	4	2
Amortization of transitional gain	(1)	(1)	-	-	-	-
	84	59	2	2	2	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the WCEBP during the year amounted to $1 million (2013 - $1 million) and reflect an employer contribution rate approximating 4.3% of pensionable earnings to January 1, 2014 and 4.8% of pensionable earnings thereafter. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

Manitoba Hydro also provides some non-pension employee future benefits including banked incidental and vacation days, long-term disability, retiree health spending, sick leave vesting and severance.

The following table presents information concerning other employee future benefits:

	2014	2013
	millions of dollars	
Accrued benefit liability		
Balance at beginning of year	201	173
Interest on obligation	4	9
Current service cost	20	23
Benefit payments	(17)	(17)
Actuarial (gain) loss	(5)	13
	203	201
Unamortized past service costs	(6)	(7)
Unamortized transitional obligation	(2)	(3)
Unamortized net actuarial loss	(7)	(17)
Accrued benefit liability	188	174

NOTE 22 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $1 571 million (2013 - $1 592 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2020. In addition, other outstanding commitments principally for construction, are approximately $2 676 million (2013 - $1 592 million).

The corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have an adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued at March 31, 2014 totaled $311 million (2013 - $289 million) and do not have specific maturity dates. Letters of credit in the amount of $7 million (2013 - $6 million) have been issued for energy related transactions with maturities until 2015.

NOTE 23 MITIGATION

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydro-electric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works, offsetting programs, and residual monetary compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion Projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydro-electric development in five signatory First Nation communities (Nelson House, Split Lake, York Landing, Norway House, and Cross Lake). The mitigation program continues to address impacts arising from past hydro-electric developments, particularly for Aboriginal people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of all projects amounted to $17 million during the year (2013 - $21 million). In recognition of future anticipated mitigation payments, the corporation has recorded a liability of $229 million (2013 - $235 million). To March 31, 2014, $1 001 million (2013 - $984 million) has been recorded to mitigate and compensate for all project-related impacts. These expenditures are included in the costs of the related projects and amortized over the respective remaining lives. There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation payments or liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling

$146 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2014 amounted to $11 million (2013 - $11 million).

NOTE 24 AFFORDABLE ENERGY FUND

In accordance with the provisions of the Winter Heating Cost Control Act, Manitoba Hydro established an Affordable Energy Fund (the Fund) in the initial amount of $35 million for the purpose of providing support for programs and services that:

(a) encourage energy efficiency and conservation;
(b) encourage the use of alternative energy sources, including earth energy; and
(c) facilitate research and development of alternative energy services and innovative energy technologies.

For accounting purposes, the Fund is classified as other long-term assets (Note 14) with an offsetting balance in other long-term liabilities (Note 17). Expenditures of $4 million (2013 - $5 million) during the year were charged to operations with the asset and liability accounts reduced accordingly. As at March 31, 2014, the balance remaining in the Fund amounted to $11 million (2013 - $15 million).

NOTE 25 NON-CONTROLLING INTEREST

Manitoba Hydro has entered into a partnership agreement with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station and associated transmission was placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of $73 million (2013 - $95 million) is represented as a non-controlling interest within the equity section of the consolidated balance sheet. TPC's portion of the net loss of the WPLP during 2013-14 is $22 million (2013 – $13 million) and is recorded as non-controlling interest in the consolidated statement of income.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC. As at March 31, 2014, Manitoba Hydro has provided advances to TPC of $92 million (2013 - $91 million). The advances plus interest are repayable by TPC through distributions from the WPLP.

NOTE 26 SEGMENTED INFORMATION

The corporation operates primarily in two business segments: electricity and gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity as well as subsidiaries providing related energy services. The gas segment represents natural gas supply and distribution activities through the operations of Centra. The corporate segment represents the costs to acquire Centra and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

The following table contains information related to the operating results, assets, liabilities, contributions in aid of construction and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	millions of dollars							
Revenues [1]	1 914	1 763	163	147	-	-	2 077	1 910
Expenses								
Operating and administrative	490	469	67	64	-	-	557	533
Finance expense	436	452	16	18	19	19	471	489
Depreciation and amortization	412	394	28	27	2	2	442	423
Water rentals and assessments	125	118	-	-	-	-	125	118
Fuel and power purchased	177	133	-	-	-	-	177	133
Capital and other taxes	97	87	20	18	-	-	117	105
Other expenses	36	30	-	-	-	-	36	30
Corporate allocation	9	9	12	12	(21)	(21)	-	-
	1 782	1 692	143	139	-	-	1 925	1 831
Net income before non-controlling interest	132	71	20	8	-	-	152	79
Net loss attributable to non-controlling interest	22	13	-	-	-	-	22	13
Net income	154	84	20	8	-	-	174	92
Total assets	14 950	13 928	689	614	-	-	15 639	14 542
Total liabilities	11 909	10 848	464	418	-	-	12 373	11 266
Contributions in aid of construction	339	307	42	33	-	-	381	340
Retained earnings	2 654	2 500	62	42	-	-	2 716	2 542

[1]Revenues are stated net of cost of gas sold of $252 million (2013 - $182 million).

NOTE 27 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2013 have been reclassified in order to conform to the presentation adopted in 2014.

Installing energy efficient LED street lights in Brandon.

Financial statistics

For the year ended March 31	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
					dollars are in millions					
Revenues										
Electrical:										
Residential	606	563	492	503	476	463	436	410	387	386
General service	799	778	701	697	669	664	638	614	597	553
Extraprovincial	439	353	363	398	427	623	625	592	827	554
Other revenue	70	69	45	41	27	34	23	16	17	15
Gas:										
Residential	208	174	172	205	222	292	268	258	245	244
Commercial / Industrial	201	149	151	193	225	281	254	244	267	258
Transportation	4	5	5	5	5	5	4	4	3	5
Other revenue	2	1	1	1	2	2	2	2	2	2
	2 329	2 092	1 930	2 043	2 053	2 364	2 250	2 140	2 345	2 017
Expenses										
Operating and administrative	557	533	481	463	440	429	381	381	368	357
Finance expense	471	489	423	425	410	471	440	506	503	502
Depreciation and amortization	442	423	381	393	384	368	349	332	322	311
Water rentals and assessments	125	118	119	120	121	123	124	112	131	111
Fuel and power purchased	177	133	146	106	104	176	134	226	125	135
Capital and other taxes	117	105	103	102	99	87	80	77	77	75
Cost of gas sold	252	182	197	261	316	431	386	379	397	384
Other expenses	36	30	19	23	16	13	10	5	7	6
	2 177	2 013	1 869	1 893	1 890	2 098	1 904	2 018	1 930	1 881
Net income before non-controlling interest	152	79	61	150	163	266	346	122	415	136
Net loss attributable to non-controlling interest	22	13	-	-	-	-	-	-	-	-
Net Income	174	92	61	150	163	266	346	122	415	136
Assets										
Property, plant and equipment	16 190	15 793	13 631	12 967	12 688	12 300	11 884	11 424	11 065	10 748
Less: Accumulated depreciation	5 506	5 252	4 984	4 752	4 612	4 356	4 187	3 924	3 657	3 447
Construction in progress	2 943	1 967	3 150	2 739	2 052	1 438	1 238	878	602	475
Sinking fund investments	111	352	372	282	822	666	718	630	555	562
Current and other assets	1 901	1 682	1 622	1 646	1 487	1 499	2 113	1 914	1 917	1 614
	15 639	14 542	13 791	12 882	12 437	11 547	11 766	10 922	10 482	9 952
Liabilities and Equity										
Long-term debt	10 460	9 329	9 101	8 617	8 228	7 668	7 218	6 822	7 051	7 048
Current and other liabilities	1 913	1 937	1 495	1 127	1 328	1 637	2 097	2 380	1 849	1 738
Contributions in aid of construction	381	340	318	295	295	296	300	298	297	296
Non-controlling interest	73	95	100	87	62	39	24	15	-	-
Retained earnings	2 716	2 542	2 450	2 389	2 239	2 076	1 822	1 407	1 285	870
Accumulated other comprehensive income	96	299	327	367	285	(169)	305	-	-	-
	15 639	14 542	13 791	12 882	12 437	11 547	11 766	10 922	10 482	9 952
Cash Flows										
Operating activities	690	589	567	595	589	688	633	443	710	433
Financing activities	1 101	635	725	674	1 124	424	487	227	77	236
Investing activities	1 681	1 242	1 312	1 373	1 698	1 086	988	788	677	666
Financial Indicators										
Equity ratio[1]	24%	25%	26%	27%	27%	23%	27%	20%	19%	15%
Interest coverage[2]	1.28	1.15	1.10	1.27	1.32	1.49	1.69	1.23	1.77	1.25
Capital coverage[3]	1.35	1.25	1.13	1.25	1.34	1.77	1.62	1.10	2.28	1.20

[1] Equity ratio represents equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest) divided by equity plus debt (long-term debt plus notes payable minus sinking fund investments and temporary investments).

[2] Interest coverage represents net income plus interest on debt divided by interest on debt.

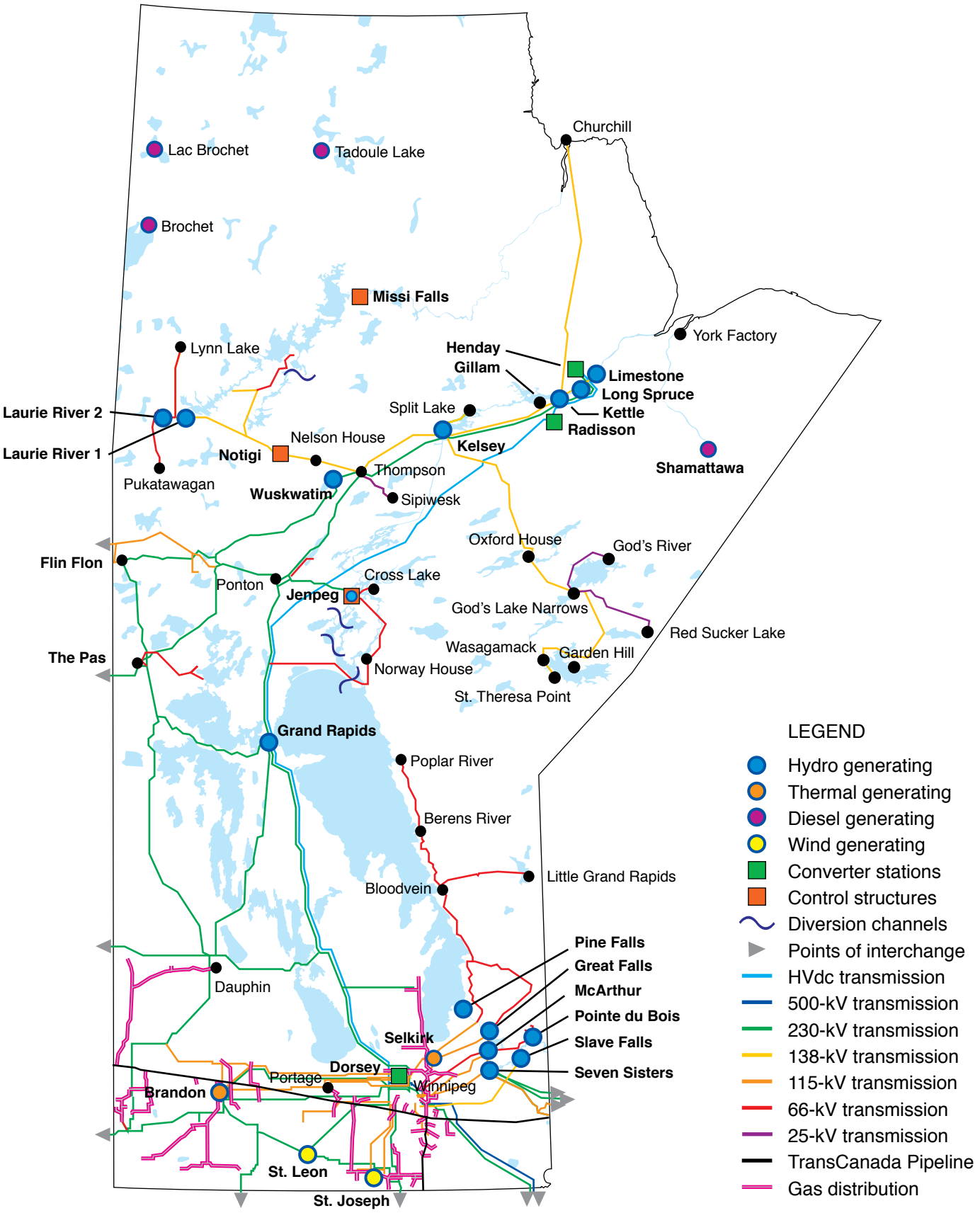
[3] Capital coverage represents internally generated funds divided by capital construction expenditures.

Operating statistics

For the year ended March 31	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Electric System Capability										
Capability (000 kW)	5 715	5 675	5 475	5 489	5 501	5 480	5 465	5 461	5 469	5 470
Manitoba firm peak demand (000 kW)	4 720	4 535	4 343	4 261	4 359	4 477	4 273	4 184	4 054	4 169
Percent change	4.1	4.4	1.9	(2.2)	(2.6)	4.8	2.1	3.2	(2.8)	5.3
Electric System Supply										
Total energy supplied (millions of kWh)										
Generation	35 392	33 230	33 235	34 102	33 961	34 528	35 354	32 132	37 620	31 548
Isolated systems	14	14	14	13	13	13	12	12	12	11
	35 406	33 244	33 249	34 115	33 974	34 541	35 366	32 144	37 632	31 559
Electric Load at Generation (millions of kWh)										
Integrated system	25 510	24 650	23 499	23 783	23 295	24 285	23 985	23 327	22 622	22 452
Isolated system	14	14	14	13	13	13	12	12	12	11
	25 524	24 664	23 513	23 796	23 308	24 298	23 997	23 339	22 634	22 463
Percent change	3.5	4.9	(1.2)	2.1	(4.1)	1.3	2.8	3.1	0.8	2.5
Electric System Deliveries (millions of kWh)										
Energy delivered in Manitoba										
Residential	7 889	7 334	6 930	7 060	6 899	6 954	6 838	6 539	6 266	6 370
General service	14 467	14 143	13 840	13 727	13 587	14 256	14 223	13 965	13 669	13 365
	22 356	21 477	20 770	20 787	20 486	21 210	21 061	20 504	19 935	19 735
Extraprovincial	10 537	9 087	10 244	10 344	10 860	10 122	11 086	10 100	13 773	10 475
	32 893	30 564	31 014	31 131	31 346	31 332	32 147	30 604	33 708	30 210
Gas Deliveries (millions of cubic metres)										
Residential	664	602	509	591	581	696	682	653	600	681
Commercial / Industrial	964	849	728	821	803	866	856	811	782	917
Transportation	652	598	629	584	619	603	618	592	598	559
	2 280	2 049	1 866	1 996	2 003	2 165	2 156	2 056	1 980	2 157
Number of Customers										
Electric:										
Residential	486 654	480 254	474 661	469 635	465 055	460 804	455 430	450 823	446 370	442 840
General service	69 106	68 520	68 020	67 664	67 304	66 668	66 169	66 038	63 421	62 826
	555 760	548 774	542 681	537 299	532 359	527 472	521 599	516 861	509 791	505 666
Gas:										
Residential	247 010	244 768	242 813	241 123	239 535	239 597	237 724	236 086	234 108	231 366
Commercial / Industrial	25 218	25 018	24 886	24 838	24 766	23 411	23 435	23 483	23 709	24 559
	272 228	269 786	267 699	265 961	264 301	263 008	261 159	259 569	257 817	255 925
Full Time Equivalent (FTE)[1]	6 556	6 463	6 413	6 394	6 236	6 080	5 841	5 773	5 748	5 682

[1] Regular FTEs (the straight time hours of work for one employee) for Manitoba Hydro, including subsidiaries.

Major electrical and gas facilities



Sources of Electrical Energy Generated and Purchased

For the Year Ended March 31, 2014

Nelson River	**73.63 %**	**Saskatchewan River**	**6.69 %**	**Thermal**	**0.35 %**
Billion kWh generated	**27.1**	**Billion kWh generated**	**2.5**	**Billion kWh generated**	**0.1**
Limestone	23.89 %	Grand Rapids	6.69 %	Brandon	0.32 %
Kettle	23.03 %			Selkirk	0.04 %
Long Spruce	19.23 %	**Laurie River**	**0.08 %**		
Kelsey	5.82 %	**Billion kWh generated**	**0.0**	**Purchases (excl. wind)**	**1.74 %**
Jenpeg	1.66 %	Laurie River 1	0.04 %	**Billion kWh purchased**	**0.6**
		Laurie River 2	0.04 %		
Winnipeg River	**10.95 %**			**Wind**	**2.52 %**
Billion kWh generated	**4.0**	**Burntwood River**	**4.03 %**	**Billion kWh purchased**	**0.9**
Seven Sisters	3.15 %	**Billion kWh generated**	**1.5**		
Great Falls	2.76 %	Wuskwatim	4.03 %		
Pine Falls	1.59 %				
Pointe du Bois	1.01 %				
Slave Falls	1.23 %				
McArthur	1.21 %				

Manitoba Hydro Generating Stations and Capabilities

For the Year Ended March 31, 2014

Interconnected Capabilities

Station	Location	Number of units	Net Capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	87
McArthur	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	292
Kettle	Nelson River	12	1220
Jenpeg	Nelson River	6	125
Long Spruce	Nelson River	10	980
Limestone	Nelson River	10	1350
Laurie River (2)	Laurie River	3	10
Wuskwatim	Burntwood River	3	214
Thermal			
Brandon		3	342
Selkirk		2	125

Isolated Capabilities

Diesel	
Brochet	3
Lac Brochet	2
Shamattawa	3
Tadoule Lake	2

Total Generating Capability	5 725

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